RIVAL PARTNERS

America and Britain in the Postwar World

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FOR

My Anglo-American Family

Betsy, Kate, David

Preface

In the war, the two Anglo-Saxon powers, brought together by common peril, worked and fought together with a remarkable degree of harmony. But as peace returned, America and Britain once again became commercial rivals and, taking into account the needs of both countries to pursue foreign trade aggressively, we must not blind ourselves to the danger of serious friction. This danger is enhanced by the present divergence of political trends in the two countries. Steps which any British government, whatever its political creed, would be forced to take to secure that volume of trade without which Britain cannot survive, may appear in American eyes doubly offensive when adopted by an administration which professes socialism. But Britain's swing to the left does not alter the basic problems with which that country is faced; and it is the nature of the problems which will determine their solutions rather than the men responsible for solving them. "Revolutions," Ernest Bevin, Labor Foreign Secretary, is said to have remarked, "do not change geography." Neither do they transform economics. Geographic and economic realities both serve to drive Britain forward along the road to a collective society. As a result of the election that road will be taken directly by men who believe in it, instead of reluctantly by those with a sentimental attachment to an old trail built in the "horse and buggy" era.

Between the time the manuscript of this book was delivered to the publisher and the first galley proofs were

received from the printers, events had overtaken its subject matter with dizzying speed. In those few weeks, the Labor Party had won a spectacular victory in Britain, the first atomic bomb had shattered Japanese resistance and loosed a Frankenstein on a dismayed world, V-J Day had been proclaimed, and Lend-lease abruptly ended. Drastic revisions had to be undertaken in the light of these developments. In particular, strained Anglo-American economic relations, which had been foreseen as a potential threat when the book was projected, had become an actuality. Consequently the final chapter was completely rewritten so as to discuss the vital conference in Washington at which America and Britain are seeking means to maintain a friendly rivalry inside a continued partnership.

A good deal of the material in this book has appeared in rather different form in the pages of *The Nation* and I am indebted to its publishers for transferring to me the copyrights of several of my articles. Grateful acknowledgments are also due to W. W. Norton and Company, Inc. for permission to quote from "Full Employment in a Free Society" by Sir William Beveridge, and "America's Role in the World Economy," by Professor Alvin H. Hansen.

I wish to thank my friends and colleagues at *The Nation*, Freda Kirchwey and J. King Gordon, both for their encouragement in writing this book and for making it possible for me to find the necessary time. It is impossible to express all that I owe to my wife, Betsy Hutchison, for stimulating suggestions and comments at every stage, for skilled assistance in proof-reading and for her guardianship of my privacy. Her help makes this book a sample of Anglo-American collaboration.

Oct. 15, 1945. K. H.

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PART I. INTRODUCTORY

Chapter 1

The Future of a Partnership

From September 1939 to August 1945, the United States and Great Britain were engaged in a joint enterprise—the destruction of the Axis. They were not, however, bound by any alliance: rather they have been associated in a partnership, a partnership entered into without any formal articles, a partnership, originally of extremely limited scope, which "just growed" as the danger to both countries grew.

In the beginning, the United States was the inactive member of the firm, which then included France. It did not invest any capital, it did not even acknowledge more than a platonic interest in the success of the venture: all it undertook was to furnish supplies on a strictly cash and carry basis. The next step came some six months later, after Dunkerque. With France forced to withdraw, the firm was in danger of going into liquidation. Hitler's triumphant armies looked across the Channel to shores defended by men with sporting rifles and pitchforks. The conquest of Britain had become an imminent possibility and that, to a growing number of Americans, spelled an unmistakable menace to the United States. "The military issue immediately at stake," according to General Marshall, "was the security of the British fleet to dominate the Atlantic." The American Navy, at the time, was for good and sufficient reasons mainly concentrated in the Pacific.

Considerations of American defense made it necessary to strengthen the assets of the partnership, but technical neutrality was an obstacle. However, a way was found to transfer arms from the United States government to a belligerent by selling surplus stocks for a very moderate sum to a private American firm which immediately resold them, at the same figure, to Britain. Not long afterwards, Britain's desperate need for means to combat German submarines was met by a deal which gave it fifty overage American destroyers in exchange for bases in the British West Indies. There was now no disguising the fact that the United States had a stake in the firm and from this point on the affairs of the English-speaking democracies became, in Winston Churchill's phrase, "somewhat mixed up together . . . for mutual and general advantage." The British government had placed tremendous orders for war material with American factories and, as the United States was also beginning to rearm on a massive scale, coordination in procurement was essential. A Joint Aircraft Committee was created to standardize designs of planes and allocate their output: patents and blueprints were exchanged.

But although the United States had become an active partner it continued to charge cash for all supplies to Britain. More than that, the British were obliged to invest large amounts of capital to build new American plants for producing tanks and planes. As a result their financial resources began to feel the strain. By the end of 1940 they had used up most of their gold and the dollars they had obtained by commandeering private British bank balances and investments in the United States. Their war chest, according to former Secretary of State E. R. Stettinius, "was down almost to two billion, and of this nearly

a billion and a half was already pledged to pay for war goods ordered here but not yet delivered." * What was to happen when the bottom of the barrel had been scraped? Was Britain to go down for want of "the tools of Victory"? If that were the outcome, said President Roosevelt, "all of us, in all the Americas, would be living at the point of a gun—a gun loaded with explosive bullets, economic as well as military." The answer was, of course, H.R.1776—the Lend Lease Act—which enormously strengthened the partnership by placing at its disposal the resources of the "Arsenal of Democracy."

The benefits of Lend-lease were not confined to Britain; they were later extended to all those United Nations which were actively engaged in war against any of the Axis powers. But it was between Britain and America that military and economic cooperation was the closest and most continuous. After Pearl Harbor it proceeded on the basis of a nearly complete pooling of their manpower and material resources. Under the Combined Chiefs of Staff, which coordinated and directed Anglo-American military operations, a Munitions Assignment Board superintended the allocation of all munitions produced in the two countries. Other combined boards were set up to deal in the same way with raw materials, shipping, production and food. The aim was always to make the best possible use of resources without regard to national flags and tags. If a ship were needed to carry American steel to Russia and a British freighter was available, there was no insistence on waiting for an American vessel. If a British boy wounded in the Burma jungle needed blood plasma, it was flown to him from the nearest supply depot, whether British or Ameri-

* *Lend Lease: Weapon for Victory*, by E. R. Stettinius, Jr. (Macmillan, 1943).

can, by the first available American or British plane. The bulk of the razor blades, toothpaste, playing cards, and so on that American service men bought at Post Exchanges in Britain were provided locally under reverse Lend-lease, or Mutual Aid, as the British call it. Similarly, British warships, after being repaired in American yards, departed with their canteens stocked with American goods.

Among the major plans developed under the pooling procedure was one for the overall use of manpower which provided that the British armed forces should be relatively greater, in proportion to population, than those of the United States. One reason for this decision, which enabled the American service chiefs to cut down their original estimates for manning the army and navy, was the obvious one that the British were already on the spot in Europe and largely trained and equipped. Another was the greater economy of using manpower for industrial production in the United States, where labor productivity was higher and smaller amounts of raw materials had to be imported. Decisions such as these were, perhaps, not always reached without friction; many of them must have been settled by compromise; some of them have troublesome postwar implications for one side or the other. For instance, the British agreed that they should concentrate on the manufacture of bombers and fighter planes, which had proved their success against the *Luftwaffe*, leaving the development and production of transport types to America. It was probably a wise decision from the point of view of the best possible use of resources, but it gave the United States a long start over Britain in the race to establish international airlines.

The really important thing about the whole partnership was that, while it may sometimes have been an uneasy one,

it worked. It finished the job it was formed to do; it delivered the goods. Nor is it difficult to account for its success, which was due, not to any mystic sense of Anglo-American brotherhood, but to a healthy realization by both countries that they were in the same boat and had better not pull in opposite directions. Only now, with dry land under foot, some Britons and some Americans are beginning to feel that they have been in unavoidable but uncomfortable proximity long enough, and look forward to a speedy parting of the ways.

But have we reached a really safe haven? Is it not rather an island jungle whose trails may prove full of danger for the solitary wanderer? It is the purpose of this book to point to some of those dangers and to urge that Britain and America tackle them together in continued partnership. Let this not, however, be considered a plea for any separate action by the two powers outside the framework of the United Nations or any exclusive union. As Richard K. Law, former British Minister of State, has declared, the world having suffered for years "under the Prussian jackboot" is unlikely to welcome "an Anglo-American governess." But in the realm of economic affairs, which is the concern of this book, America and Britain will share an overwhelming responsibility. As the world's leading industrial and trading nations they will set inevitably the pattern for international economic development. Working together they can do much to get the world back on the road to prosperity; working at cross purposes they may drive it into the wilderness of depression and finally over the precipice of World War III.

It must be admitted that Anglo-American cooperation for the complex and unlimited ends of peace is going to be much more difficult to achieve than cooperation for the

definite and easily understood objectives of war. The price of failure may be just as high, or higher, but the dangers to be overcome will be far less obvious. Already, as the sense of emergency fades, normal antagonisms are reappearing and normal divergencies of interest are reasserting themselves. Now peace has come, the common funds of sympathy and understanding that can be drawn upon to support a continued partnership may prove none too plentiful. It is doubtful whether they have been enriched greatly by well intentioned official efforts to promote Anglo-American friendship, though some good may have been accomplished by the spreading of actual information. But even the factual presentations of the Office of War Information here and the Ministry of Information in London too often have been rendered weak and watery by too much sentimental propaganda. Moreover, if these agencies, on the one hand, have been too honest to lie with the brazen but sometimes convincing self-confidence of Goebbels, on the other, they have usually been too timid to tell the truth, even though it hurt. Theirs has been the sundial policy—to record only the sunny themes.

Any discussion of Anglo-American relations that is less than completely candid has little value. The old idea that the two nations are really one family, that a sense of common ancestry makes for solidarity, that quarrels between them have a domestic quality which removes their edge, is a flimsy basis on which to build cooperation. It is common experience that family rows may be as bitter, or more so, than those involving outsiders. And, in any case, the fact and feeling of kinship has naturally weakened with each new generation, for not only has the original Anglo-Saxon stock in America become diluted, but the environ-

ment has produced a rapidly evolving new type, different physically and emotionally from the Briton.

In the United States there is a comparatively small but influential group of Anglophiles, a comparatively small but noisy collection of Anglophobes. The vast majority in between have no well-defined feelings of solidarity with the British and little information about or understanding of their problems. In Britain, the situation is roughly similar. Real understanding of another country cannot easily be obtained without personal experience, but only a minority of Americans have had a chance to visit Britain, even briefly, while a still smaller percentage of Britons have been able to taste the authentic flavor of America. Time and money have proved barriers to wider intercourse which we must hope cheap air transport will lower. Travel, of course, is not necessarily broadening; some Britons enjoy America only by picking it disdainfully to pieces; some Americans make a trip to Britain an orgy of unfavorable comparisons. But the reactions of a majority of travelers are more sympathetic. Britain appeals to many American visitors by reason of its relaxed atmosphere, the mellow, tidy beauty of its countryside, the pervasive sense of history and tradition which it affords, the good humor and good manners of its inhabitants. Those who look deeper are apt to be impressed by the highly developed sense of public service they find there, the degree of basic unity and the ability to combine social stability with social experimentation.

Britain is like old brandy; America is champagne, and Britons, particularly young ones, are inclined to find it a heady but refreshing draught. There is an atmosphere of high adventure in this country, a sense of constant move-

ment—if not always of direction—a disbelief in the impossible, a revolt against ruts and grooves, a contempt for barriers. For the Briton, unless he is a particularly hidebound specimen, all these things make for an atmosphere which contrasts pleasantly with the stuffier aspects of his home country. In Britain, liberty is well-ordered; in America, it has its anarchical aspects. Both varieties have their good points and both have to be experienced fully if either is to be appreciated.

In the past three years between one and two million young Americans have had their chance to sample life in Britain. But it has been life under especially unfavorable circumstances and for most of them the journey has been a quite involuntary one. The A.E.F. has been described as "the most homesick army in history," and the attitude of its typical member was neatly summarized by a cartoon in *Yank* which showed a soldier on an arriving transport. Looking at the approaching shore, he cracks: "So that's England; I don't like it." To the average incoming American soldier, Richard L. Strout has written in the *Christian Science Monitor*, "England seems wholly alien. This strange land has arbitary customs. Currency is preposterous. Contacts with natives rouse tendencies to rash and reckless boastings; sometimes defense takes a noisy, arrogant form." So the largest scale meeting of Americans and Britons in history has been far from an unqualified social success. The British warmly welcomed the first contingents of "the invasion," but as more and more poured in their enthusiasm noticeably cooled. With individuals, they usually got along very well, but American soldiers *en masse* often proved disturbing.

Fortunately, there is another side to the picture. Proof of the fact that, in spite of everything, a large number of

close Anglo-American friendships were formed while the American armies crowded Britain was the correspondence carried on between the Western Front and Britain. Every week in early 1945 American soldiers were mailing some 700,000 letters to friends across the Channel; and every week British civilians sent about the same number in the opposite direction. Quite a lot of the invaders who went to Britain with chips on their shoulders have returned with warm spots in their hearts. When Yank and Briton were able to meet on a man to man, or man to woman basis, they usually got along tolerably well. Where, for instance, American soldiers were billeted on British families, the results were often astonishingly good. American boys—even the wild ones—respect the home as an institution and appear at their best in a home background. Their free and easy friendliness speedily broke down the reserve of their hosts (British reserve, incidentally, is a much thinner crust than is usually supposed) and in numerous cases billetees became favored guests and even adopted sons.

Perhaps, in intimate evenings round kitchen fires some progress was made in dispelling the illusions that Americans and Britons cherish about each other. The doughboys have been able to see for themselves that Britain is not as the Hollywood sets too often have pictured it—a land of ivy-grown mansions and rose-twined cottages, of haughty aristocrats and incredibly competent butlers. And, in turn, they have probably been able to persuade their hosts that America is not a country populated by playboys and gangsters, with a machine-gun battle at every corner and a marble swimming pool in every backyard. Having buried their mutual myths, hosts and guests may have gone on to discover that their hopes and fears for the future had much in common and that many of the social and economic prob-

lems which they must grapple with when peace came were basically the same.

When Americans and Britons discuss peace in general terms, there is usually little disagreement. For both their countries security against war is a major interest; neither of them is an aggressive nation in the sense that it looks to conquest as a means to increase wealth and power. On the question of how to preserve peace there may be less unanimity, but even here differences are apt to cut across rather than run along national lines. Both countries have their nationalist and internationalist groups and in both there is debate on the subject of how far it is wise or possible to go in the direction of surrendering sovereignty to a supranational organization. Broadly speaking, however, it is not too much to say that in peace-making, as in war-making, majority opinion in both countries sees national interests following parallel lines.

When we come to matters of economic policy, national interests are less clear-cut, or, rather, they tend to be blurred by their intersection in all directions by individual and group interests. True, both countries are naturally concerned with creating prosperity at home and, since it is generally conceded that economic depression is an infection which spreads beyond national boundaries, in promoting active trade throughout the world. But general agreement about ends is very different from agreement about means. Within both countries, though more so in America than in Britain, controversy about the right road to prosperity is heated and continuous. And the struggle over internal economic policy is inextricably mixed with that over external policy.

There are still those who believe that the welfare of a community is best promoted when everyone ruggedly

pursues his own self-interest. But this could be true only if people were in the habit of taking very long and very broad views about the nature of self-interest. Unfortunately, most people are not far-sighted; they tend to see the national wood solely in terms of their individual trees, and resist strenuously when good forestry practice calls for their cutting or trimming. For instance, in the course of negotiations for a trade treaty between the United States and Iran, potentially a good postwar market for this country, the almond growers of California learnt that tariff concessions might be made on imported almonds. Feeling their interests threatened, they sought the aid of the Associated Farmers of California, which brought such forceful pressure to bear on the Californian State Legislature that it passed a resolution protesting the renewal of the Reciprocal Trade Agreements Act. Now this act provides for a rather modest and gradual downward revision of tariffs, a step widely conceded to be essential if America is to persuade other countries to reduce their trade barriers and so make possible a postwar expansion of exports. And if there is one point on which Americans are agreed, it is that sales of goods to other lands must be increased. Certainly, this is an interest of Californian farmers as a whole, for they have little to fear from foreign competition and much to gain from enlarged foreign markets, particularly for their canned goods. Yet the immediate threat to the interests of one very minor constituent group blinded them to their own long-term advantage, not to mention that of the nation as a whole.

In the making of their international economic policies both America and Britain will be subjected to innumerable pressures from special interests. These could easily sabotage all possibilities of a broad partnership, unless the statesmen

of both countries keep their eyes firmly on the end in view—the development of harmonious programs which stimulate and facilitate the expansion of world trade. A working agreement between the two nations is, as has already been emphasized, an essential preliminary to the attainment of international economic peace and stability.

America and Britain, after the war, will inevitably exercise a dominant influence on world trade. For a long time they will be the only major countries with any considerable surplus of industrial capacity available to supply a universal demand for goods. The war machine has pushed aside all other customers; consumers everywhere have had to go without, stocks everywhere have been depleted. Russia is a great industrial country but it has an enormous task ahead rebuilding its devastated lands and satisfying the demands of its own people. It will have no surplus of manufactured goods to export; on the contrary it will probably be a large importer. Germany and Japan, two major exporters of industrial products before the war, have had their industries smashed and, no matter how the terms of peace affect their economies, their relative importance in world trade seems likely to be reduced for a long period. France, Italy and the Netherlands, all industrial and trading countries of some account, have suffered horribly and will have to give their domestic markets priority. Only Canada, among the second rank prewar exporters, seems able to expand its overseas sales, and Canada, with its close links to both America and Britain, will certainly have a voice in their policy-making.

Even when the world returns more or less to normal, America and Britain are likely to remain the leaders in international commerce. Before the war they were the biggest factors in world trade, America as exporter, Britain

as importer. Between them, in 1939, they accounted for some 24 per cent of the world's exports, 26 per cent of its imports. So that they are even more important as markets than as sources of supply. If they prove good markets, that will tend to spread prosperity universally; if their buying is meager, all the world will suffer. It is reasonable, then, that America and Britain should have taken the lead in drafting international postwar economic policies.

In his message to Congress on January 16, 1941, President Roosevelt described the "four essential freedoms" upon which a secure world must be founded. The third—freedom from want—meant, he said, "economic understandings which will secure to every nation a healthy peacetime life for its inhabitants—everywhere in the world." This was the broad aspiration. In August of the same year, the President and Prime Minister Churchill, at their meeting off the coast of Maine, drew up the Atlantic Charter to which all the United Nations subsequently assented. Among the eight "common principles in the national policies of their respective countries," on which the two statesmen based "their hopes for a better future for the world" were:

> Fourth, they will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and the raw materials of the world which are needed for their economic prosperity;
>
> Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic adjustment, and social security.

Again, the master Lend-lease agreements, concluded by the United States with Britain, Russia, China and a number of other countries declare:

> In the final determination of the benefits to be provided to the United States of America by the Government of . . . in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of worldwide economic relations. To that end they shall include provision for agreed action by the United States of America and . . . open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

Two general principles seem to emerge from these statements: First, the United Nations should take positive action to promote an economy of expansion, which seems to imply planning both nationally and internationally; second, they should seek freedom of international trade in its fullest sense, which suggests reliance on the unimpeded forces of supply and demand as the main agent for the desired increase in production, consumption and exchange. Conservative political and business opinion in this country looks askance at any proposals based on the first principle. The American people, wrote Mark Sullivan in the New York *Herald Tribune* of March 18, 1945, in considering agreements collateral to a world security treaty, must beware of those which "tend to bring about an international system of collectivism such as would involve the

United States becoming a collectivist nation." Since in the conservatives' dictionary economic planning and collectivism have practically the same meaning, they wish to see any international action confined to the fulfillment of the second principle. Private enterprise, they profess to believe, will then provide for an expanding economy.

In Britain, on the other hand, the opinion is widely held, even in business circles, that only if the world economy is expanding will there be any chance to achieve freedom of international trade. There is nothing automatic, according to this view, about the growth of the cake of international trade. If its size is limited, still more if it is contracting, the first care of every country will be to secure as big a slice as possible by whatever means are necessary. Hence only planned action to enlarge it will ensure elbow room for competition between countries and a chance to enjoy the benefits of the international division of labor—benefits which arise from the reduction of international prices when each country can concentrate on those forms of production in which it has a natural advantage in cost.

In the international discussions which have so far taken place on specific ways of attaining "freedom from want," the American theory has predominated. It is true that the Hot Springs Conference on Food and Agriculture proposed the planning of agricultural production, and the adoption of definite measures to prevent violent fluctuations of prices. In addition, it proclaimed the need of a balanced and world-wide expansion of economic activity and asserted that consumption of primary products would remain inadequate unless there were national and international action to raise the general level of employment. But the interim commission set up by the Conference was empow-

ered merely to make further recommendations along these lines.

By contrast, the International Monetary Conference at Bretton Woods in August, 1944, adopted definite agreements for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development, signed by forty-four nations and transmitted to their governments for ratification. These agreements will be discussed in some detail in Chapter 12. Here the point to be observed is that their primary objective is the creation of conditions under which international free enterprise can operate. True, the agreements may be regarded properly as a form of economic planning—they go too far in that direction for some of their American critics—but their major emphasis is on the removal of discriminatory currency practices, on the abolition of monetary controls, and on the stabilization of exchanges. They look to international economic disarmament, but that is not necessarily the same thing as international economic peace. Indeed, since the weapons they outlaw are for the most part weapons which the United States is not easily able to employ, it is not unfair to say the intent of these agreements is to prevent America's competitive advantages from being undermined. The British, however, do not believe that free competition will do much to answer their problems and it is not surprising that they acquiesced in the Final Act at Bretton Woods without enthusiasm. This is not to say that they are devoted to exchange controls and similar devices as such, but they hesitate to give them up until they are assured of American cooperation in direct measures to enlarge world trade. Bretton Woods, in their view, was concerned merely with the fair division of the cake; not much was done there about baking a bigger one.

The competitive theory triumphed also at the Chicago Aviation Conference in the fall of 1944. Australia and New Zealand produced a plan for an international, publicly owned air transport system; Britain and Canada urged separate measures for the international regulation and control of air traffic. But the United States delegation took its stand against both proposals contending that they would encourage monopoly. The division of business between different national airlines must, it insisted, be based on free competition. This view prevailed, though at the expense of agreement on the establishment of complete freedom of the air. Regardless of its abstract merits, the competitive theory coincides with American interests at a time when this country has a long start on its rivals in the air.

When cooperation between countries is confined to efforts to safeguard competition, some scepticism is permissible about how long that cooperation will continue even for that limited purpose. Certainly, while the talk of cooperation goes on, preparations for a struggle for trade between America and Britain are actively under way. Such struggles are not kept easily within the bounds of fair play, particularly when, as we shall see, both countries have so vital a stake in foreign markets. While the war was still raging in Europe, charges and counter-charges were bandied back and forth across the Atlantic. In America, despite numerous denials by the Administration, the allegation was frequently made that the British misused Lend-lease to promote their own exports. On the contrary, retorted the British, Lend-lease has been made to serve as an American sales promotion scheme and restrictions attached to materials received by us are crippling our export business. In private circles in both countries, one hears denunciations of barriers to trade erected by the other; in both, one

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finds under discussion, in total disregard of the obligations of the Atlantic Charter, plans for the construction of new economic defenses. As a result, mutual fear and suspicion are very visible already and the psychological opportunity for strengthening the Anglo-American partnership as an instrument of peace is waning.

Later chapters will examine the budding rivalries between America and Britain in various economic fields. But it is first necessary to consider the impact of war on the economies of the two countries. In their different domestic problems and policies can be found the explanation of their different approaches to foreign trade; in the basically similar needs of their peoples lies the key to agreement.

PART II. POSTWAR AMERICA

Chapter 2

The Past Will Not Return

Half Europe is in ruins: homes, factories, cathedrals, harbors, schools and bridges reduced to rubble and twisted girders—the liquidation of centuries of cultural and material capital. Japan has gone the same way, experiencing tenfold the devastation it let loose on Nanking and Hong Kong, on Singapore and Surabaya, on Manila and Mandalay. Among the major belligerents only the United States has escaped physical damage, except in its outlying territories. But America, if unscathed by the war, is certainly not unchanged. Its economic and social geography has been pulled out of shape by the strains and stresses attendant on an industrial expansion unparalleled in history. No amount of wishful thinking will put it back again.

War has not solved the economic problems which baffled Americans before 1939; it has intensified them and added fresh ones. The mushroom growth of new industries, the violent wrenches suffered by old ones in adapting them to wartime needs, the resulting shifts in population, the inflation of agriculture, the drain on natural resources—these are by-products of the conflict that cannot be dumped and forgotten. They contain explosive elements which threaten to create a host of conflicts—regional, racial and industrial—between old vested interests and new. Despite its apparently favorable position, America seems bound to share to

some extent the social and political tensions with which other belligerent countries will be afflicted.

American postwar difficulties, however, will be very different from those of most of its present allies who may find it hard to understand or sympathize with them. The disease from which Europe will be suffering after the war is economic malnutrition. With a large part of its capital wiped out, it will be forced to stint current consumption to provide the wherewithal for reconstruction, to maintain a low standard of living so that the major part of its manpower can be used for rebuilding broken homes and smashed industries. For years Europe has been forced to choose guns before butter; now it must sacrifice butter to bridges.

America's postwar economic headaches, on the other hand, promise to be the result of surfeit rather than of scarcity. Even before 1939, this country was finding great difficulty in consuming all the goods it was able to produce and, in consequence, many workers were without jobs. Now that productive capacity, which seemed already too great for peacetime needs, has been enormously expanded to satisfy the abnormal appetite of war. Moreover, America's investment diet in the past five years has inevitably been an unbalanced one. It has been necessary to concentrate on the creation of facilities for making capital rather than consumer goods. Thus the end of the war found the country equipped for producing aircraft and ships on a scale completely unrelated to peacetime needs. Again, there has been a hot-house development of the light metal industries whose capacity shot ahead even of the huge demands of war. It will probably be years before peacetime consumption can catch up with it. The machine tool industry offers another

example. In three years, 1941–43, more of these machines to make machines were built than in the preceding forty. Some of them are highly specialized, useful only for armaments making, but a very large number can be adapted to civilian production. Does this mean that America is overtooled? Unless postwar levels of economic activity are much higher than prewar, it would seem so.

Let us take a look at steel, the key capital-goods industry, the barometer of the American industrial system. In 1940, a very good year, the industry produced 67 million tons of ingot steel. Its rated capacity at the beginning of that year was 81.6 million tons: today, it is 95.5 million. Wartime demands have kept the furnaces roaring continuously but peace promises to be less voracious. In a good postwar year, according to Walter S. Tower, President of the American Iron and Steel Institute, consumption is likely to be equal to that in 1940.* That means an unused capacity, even under favorable conditions, for the production of nearly 30 million tons of steel—more than the total prewar output of France and Germany. What is to happen to this "surplus" plant? Some of it now belongs to the government which has invested about one billion dollars in steel facilities during the war. Should it be dismantled, or disposed of cheaply to established steel-makers so that they can afford to keep it for standby purposes, or should it be sold to independent newcomers who will increase the competition in the industry? Whatever step is taken, there will be violent opposition.

The problem arises in an acute form in the case of the two steel plants which have been built with public funds

' *Wall Street Journal,* May 26, 1944.

in Utah and California, giving the Far West an integrated steel industry for the first time. The larger of the two, the Geneva mills near Salt Lake City, was constructed for the Defense Plant Corporation at a cost of $200,000,000 by the Columbia Steel Company, western subsidiary of United States Steel. Operated on a non-profit basis by another subsidiary of the same giant corporation it has a capacity of 1,300,000 tons of ingot steel annually, most of which has been turned into plate for the western shipyards. Fontana Steel, near Los Angeles, is a project of Henry Kaiser, the West's miracle production man, who financed it with a loan from the Reconstruction Finance Corporation. It has a capacity of 700,000 tons, but it is a less efficient plant than Geneva since the War Production Board refused Kaiser priorities on modern machinery and it was put together out of bits and pieces. Moreover, it has to import its coal and a good deal of its ore from Utah, which adds considerably to its costs. On the other hand, plentiful local supplies of scrap give it an advantage and it is conveniently located in relation to the largest potential market in the west—the sprawling metropolitan district of Los Angeles. Like Geneva, Fontana requires a considerable additional investment in facilities for making tin plates, sheets and tubes before it can be operated to meet peacetime needs.

Early in 1945 Mr. Kaiser made it known that he wished to retain ownership of Fontana and was ready to make a bid for Geneva. The United States Steel Corporation, indignantly denying it was uninterested in the West Coast, announced that it would like to buy Geneva and had its eye on Fontana besides. Here is an industrial conflict in the making, a conflict not to be settled on the basis of which party makes the highest bid for the properties, a conflict which has some very acute political angles to it, for the

western states are deeply concerned about the fate of their new steel industry.*

Robert Elliott, financial editor of the San Francisco *News*, has written: "War has revolutionized the West from an economy of agriculture, mining, forestry and shipping, and the colonial status of being a branch office of the East, into a fully fledged industrial age." Nowhere in the country has wartime development been so spectacular as on the West Coast, but it has been a development hinged on shipbuilding and aircraft manufacture, two industries which must dwindle after the war. The new steel mills were built to provide plates for ships, the aluminum and magnesium plants to supply the aircraft industry. If the West is to succeed in shifting one and a half million workers from war jobs to peace jobs, it must create new industries. And that means it must have raw materials available at prices competitive with those in the older manufacturing centers. Hitherto, West Coast manufacturers have had to pay more for their steel than easterners, because, whether it was produced locally or not, its price was calculated by adding freight costs to the quotation at an eastern "basing point." This system, westerners fear, will be continued after the war if the new steel plants fall into the hands of the big corporations whose main interests are in Pennsylvania, Ohio or Alabama. Therefore, they are likely to press for the sale of Geneva and Fontana, if Kaiser does not retain control, to an independent who will not make them merely auxiliary to other interests. Although United States Steel has recently declared that it "is also an exponent of the continued industrial development of the Far West," it has

* Local opposition appears to have dissuaded United States Steel from pursuing plans to buy Geneva. Instead it proposes to expand the plants of Columbia Steel—another way of challenging Mr. Kaiser.

not been forgotten that Ben Fairless, President of the company, once said: "Abstract economic justice no more demands that the Pacific Coast have a great steel industry than that New York State grow its own oranges." Westerners are not interested in such abstractions; they believe that a concrete steel industry is necessary to their future and they mean to fight for it.

A similar struggle threatens over the disposal of the aluminium and magnesium plants which have been located along the West Coast to take advantage of the surplus of cheap power. Local opinion is opposed to their sale to the Aluminium Company of America, which has lower cost plants elsewhere, or to any concern which will not guarantee to operate them. Unless the government is prepared to let these properties go very cheaply, however, it may have difficulty selling them at all. In the case of the aluminium works, in particular, costs are high because of the necessity of importing raw materials. The magnesium plants may be in a rather more favorable position though it is doubtful if they are fully competitive with the Dow Chemical Company's old-established Gulf Coast enterprises. And, it must be remembered, unless the prices of these light metals can be lowered, demand for them is likely to fall far short of the nation's swollen capacity to produce them. Yet if the western plants are closed down, local anger will be intense and may well lead to an agitation for their operation by the government. In a region which has derived manifest benefits from such government undertakings as the Bonneville Power Administration, public ownership is not, even to businessmen, nearly so horrifying an idea as it appears in Wall Street.

The delight in growth for its own sake is an American characteristic especially pronounced on the Pacific slopes

but the concern of the West Coast about its industrial future is not merely a matter of regional pride. New employment opportunities are desperately needed there, because war industries have attracted a vast number of migrants who, in the main, show no disposition "to go back where they came from." In the past four years nearly two million people have moved to California, Washington and Oregon. The population increase of the chief industrial areas of these three states has been staggering; San Diego, 44 per cent; Portland-Vancouver, 32 per cent; San Francisco Bay District, 26 per cent; Puget Sound (Seattle-Tacoma), 21 per cent; Los Angeles, 15 per cent. But even these figures disguise the distension of smaller communities within the areas in question. Richmond on San Francisco Bay, for instance, has quadrupled the number of its inhabitants.*

Western cities are bursting at the seams as the result of this expansion, which has been far too rapid to permit public facilities to keep pace, particularly in view of wartime shortages. Housing, schools, local transport have been under tremendous pressures; social problems have multiplied. But the social problems created by a flood of busy, well-paid workers are nothing to those which will arise when these same men and women stand around in the streets with nothing to do. On the whole, the war migrants have received a far warmer welcome than the hungry Oakies and Arkies of the thirties. They have been good customers for the local merchants and service industries; they have inspired one of those real estate booms in which the West delights. But many of the old inhabitants who have not profited directly from the boom resent "the invasion." "A sharp cleavage has already developed, in many areas," wrote

* *Fortune*, Feb., 1945.

Carey McWilliams in the *Nation* of September 2, 1944, "between migrant defense workers and settled residents who offer a passive resistance to the integration of the newcomers into the established pattern of community life." If and when these newcomers cease to be able to spend freely, if they become competitors in a shrinking labor market, if they threaten to be a charge on local taxpayers, this hostility may become active.

The California State Reconstruction Commission in a pamphlet titled, "How Many Californians?" declared: "California got a bargain when 1,300,000 new people came here for war jobs." Undoubtedly, this statement is correct. People *are* an asset to a community; they enlarge the market, create the demand necessary for new industries; countries can grow only by growing. But the West's wartime growth has been embarrassingly rapid and, it is to be feared, many of its inhabitants will be more aware of the short-term inconveniences and difficulties caused by an enlarged population than of the long-term advantages. It is easy to imagine a movement starting to get rid of undesired "aliens," beginning with the many Negroes who, for the first time, have settled on the coast in large numbers. Vancouver, Oregon, had 2 Negro residents before the war. Now it has more than 8000 and the local authorities take the view that the city can absorb permanently no more than 100.*

Most of the war migrants who have gone to the Pacific Coast seem to want to stay there. Despite the discomforts they have had to put up with in overcrowded communities, they are thoroughly "sold" on the attractions of the West. A survey at San Diego showed that 75 per cent of

* *Wall Street Journal*, March 2, 1945.

the new arrivals there planned to remain permanently: a questionnaire filled in by Kaiser shipyard workers at Portland and Vancouver revealed that 21 per cent had decided definitely to stay, 31 per cent would do so if they could get jobs, 24 per cent intended to move, and the rest were undecided. In the Lockheed works at Los Angeles 89 per cent of the employees said that they meant to remain in the area. Prolonged unemployment may, of course, change the minds of many, especially if jobs appear more plentiful in other parts of the country. But most of these workers have savings and are entitled to draw on California's big unemployment insurance fund. They are likely to hang on.

The situation on the West Coast illustrates the problems created by wartime shifts in population in their most dramatic and publicised form, but they are duplicated in many parts of the country. Statistics published by the Bureau of the Census, estimating the position as of July 1, 1944, show that the tide of migrants flowing south has been almost as strong as that flowing west. Florida's population increased by nearly 25 per cent in four years, Virginia's by 19½ per cent, Maryland's by nearly 17 per cent, while Texas and Louisiana both have had sizable gains. The main sources of the flow have been the Northeastern and North Central states which together have experienced a population decline of almost 3,000,000. But, within these main tides, there are many eddies. While white workers have moved to the south, colored workers have turned north as they did in the last war, or have moved from southern fields to southern shipyards. One result is an acute shortage of farm hands which is stimulating the mechanization of cotton growing but also encouraging the abandonment of this traditional crop in favor of others less dependent on cheap labor. Negro emigration and rapid industralization are tending to

change the economic basis of the South and, to some extent, its social and political outlook.

But if, as some observers have claimed, racial tensions have lessened in the South, they are growing in the North. Negroes and white hillbillies have both swarmed into Detroit, attracted by the jobs its huge warplants offered. They form an explosive mixture which already has detonated in one very ugly race riot. Complicating this situation is the smouldering conflict between employers and organized labor which takes, perhaps, a more bitter form in Detroit than in any other large city in the country. The Automobile Workers Union, fearing on the basis of past experience that "the bosses" will be tempted to exploit racial prejudices, has stuck firmly to its policy of racial equality within the organization. But it has an uphill task educating a membership of an extremely diverse nature and competing with the Klan-like propaganda that abounds within the city. Detroit's first crisis will come in the immediate postwar period when the factories are being reconverted from war work to civilian production and a million or more men may be temporarily without jobs. After that, automobile industry experts believe there will be an unprecedented boom, but even then they are figuring on 200,000 unemployed. That is an alarming number of idle hands for a city offering Satan so many opportunities.

A large number of the workers for defense plants all over the country came from rural areas. Wichita, Kansas, which in 1940 had 8532 workers employed in manufacturing industries, in the spring of 1945 had 52,000 in aircraft factories alone, nearly all of them recruited from farms in the state. Many expected to return to the land after the war; their savings would pay off mortgages and permit them to buy new machinery and stock. That seems to be the postwar plan of a good proportion of workers in other

war centers also, not to mention a considerable number of veterans. But the outlook for those seeking a living on the land is not very promising.

During the war, with several million fewer acres under cultivation than in World War I and with a much reduced labor supply, American farmers have harvested a succession of record crops. They have been spurred on by government appeals and encouraged by a rise in prices which has about tripled their total incomes. The weather has been kind, but even so they hardly could have wrought the miracles of production that they have achieved without increased mechanization and other improvements in technique, such as the now widespread use of Henry Wallace's hybrid corn seed which has raised yields ten to twenty-five per cent. Scientific advances will continue after the war; the use of machinery will expand still further, for farmers have more ready cash to spend on improvements than in decades. But what sort of a market for farm products will there be when the present abnormal demand for food and other crops subsides, when European farms begin to produce again, and when the shipping situation makes exports from Australia and Argentina more competitive?

In a speech to a farm conference at Chicago, Theodore W. Schultz, the noted agricultural economist, predicted: "Within two years after the war, the old prewar farm problems of poor prices, accumulating agricultural surpluses and low farm income will manifest themselves. The most significant fact for the first decade or two after the war is the prospect of unequal growth in the demand and supply of farm products. The supply will be in the vanguard. It will increase more rapidly than the demand." * Howard Tolley, Chief of the Bureau of Agricultural Economics of

* New York *Herald Tribune,* Sept. 10, 1944.

the Department of Agriculture, has also forecast a future for farmers of unmanageable plenty. The United States, he has estimated, could abandon 20,000,000 acres of farm land after the war and still meet all demands for food, even though full employment were achieved.*

The government's pledge to maintain minimum farm prices for at least two years after the end of hostilities may temporarily ease this situation; in the long run, it seems bound to exaggerate the problem of surpluses. Government experts, fully aware of this fact, are believed to be seeking a way to link federal assistance in the maintenance of farm income to crop diversification and a broadening of the soil conservation program. Research may help by finding new uses for agricultural raw materials but meanwhile some industrial crops, which have expanded during the war to compensate for declines in imports, may have to be cut back sharply. For instance, the acreage devoted to vegetable oils has been enormously extended. Soy beans are now the fourth largest American crop, with 13,564,000 acres planted in 1944 compared with an average for the decade ending in 1941 of 6,999,000. When imported supplies of cocoanut and palm oil again become available growers of soy beans are likely to be hard-pressed. Another new crop is the tung nut, from which is derived an oil used for paints, lacquers and other finishes. American supplies used to be obtained from China but some experimental tung orchards had been planted along the Gulf Coast before the war. When China was cut off in 1941, the price of the oil tripled and a new boom was born. Two hundred thousand acres have now been planted and, although many of the trees had not yet reached the bearing stage, growers in 1943

* *Ibid.*

received $5,000,000 for the crop, which represented a very handsome profit. When trade with China is reopened the price is likely to fall, provoking an outcry against allowing the produce of ill-paid "coolie labor" to ruin American farmers. Yet China is one of the foreign markets to which American industry is looking eagerly to dispose of its surpluses, and it will hardly be able to fulfill such expectations if China is unable to sell its own produce here.

There was a time when American primary producers fought for low tariffs against protection-seeking industrialists. Farmers and miners, selling a relatively high proportion of their output in world markets at world prices, were anxious to promote foreign trade and resented the high prices they were charged for domestic manufactures. But for some years both groups have been shifting their positions and the war has hastened the process. With their costs, broadly speaking, tending to rise above world prices, the agricultural and mineral interests want to make sure of the home market on which they are increasingly dependent. Manufacturers, on the other hand, seeking to sell abroad a surplus of swelling dimensions, are doubly handicapped by high tariffs on raw materials. For they not only encourage primary producing countries to raise barriers against American goods, but increase production costs on manufactures which have to be sold competitively. American paint factories may be beaten in world markets by British ones if the latter can get supplies of tung oil from China at half the price the former must pay for the home-grown variety.

Let us see how this potential conflict is developing in the case of minerals. Large mineral resources have always been an important element in the growth of American wealth but the position of this country is becoming rela-

tively less favorable. The demands of war have made necessary a heavy draft on mineral reserves and the possibility of their ultimate exhaustion has to be considered. The huge iron-ore deposits of Minnesota, for instance, are being used up rapidly and the steel industry is seeking alternative sources of supply abroad. However, as the big steel corporations have always controlled their ore supplies, conflict between producers and consumers is unlikely in this case. With the other leading industrial metals, the position is more complex. The United States is still the world's largest producer of copper and lead, but reserves of both are dwindling, and during the war domestic output has had to be supplemented by large-scale imports. And even though peace brings a slackening in demand, home production will not be sufficient to fill it.

The wartime ceiling on lead and copper prices has been held at a level which gave the richer and more efficient mines an ample profit. But in order to swell supplies by encouraging the working of lower-grade ores the government has paid a premium on the output of mines which could not have operated at the fixed price. The question arises whether this special assistance, together with the subsidies and loans which have been extended to producers of other vital minerals, is to be continued after the war. If the government is to maintain a stockpile of strategic minerals, should it buy them at above-market prices in order to encourage the working of mines which otherwise would close down? Or should it purchase supplies abroad at the most favorable prices and so conserve American resources?

There is fairly strong support for the idea that it is contrary to national interest to over-stimulate the production of minerals, reserves of which are limited, and that imports should be encouraged rather than discouraged. The

American Mining Congress, however, at a meeting in 1944, declared that national security depended on the maintenance of the mining industry in good operating condition and, therefore, it "must be protected by a tariff adequate to offset richer natural deposits and lower costs in foreign countries." In the case of some minerals, such a tariff would have to be steep indeed. Moreover, the question of competing substitutes complicates the situation. If the price of copper, for example, is forced too high, makers of electrical cable, one of the chief consumers of the metal, may turn to aluminium which has many of the same properties.

Another once abundant natural resource, which is now becoming seriously depleted, is timber. During the war it was impossible to keep up with the demand for lumber and wood pulp, and stocks were whittled down to a precarious level. Nor is demand likely to slacken much in the postwar period, owing to the large arrears of housing which have to be made up, and the need for restoring inventories to normal. The last big stands of virgin timber in the country are in the Pacific Northwest, whence comes half the national supply of lumber; but, even there, lumbermen are beginning to realize that the bounty of nature is not inexhaustible. Their tradition has been to slash and pass on, but now they are thinking in terms of "tree-farming"—balancing cutting by new growth. Moreover, legislation as well as self-interest prompts the adoption of less wasteful logging methods than have hitherto been practiced. These are necessary steps to insure survival but the immediate result is to raise costs, which are also unfavorably affected by the fact that timber must be sought in more and more remote spots. Increased importation of lumber and other wood products from Canada and Northern Europe appears likely, therefore, in the postwar years.

But if this serves as a damper on prices, how will American lumbermen react? It will surely be no surprise to see them lined up with the farmers and the mining interests in a fight for bigger and better tariffs.

This rapid survey of the economic and social map of the United States has indicated some of the changes brought about by wartime pressures. We have seen how new industrial peaks and ranges have risen; how gulfs and gullies have opened, imperiling the existence of established communities of producers; how population streams have altered their courses and overflowed into pools threatening to become stagnant. The heaving earth will not settle down quickly with the coming of peace; tremors will continue and a change in social climate seems probable, bringing stormy weather. One thing is certain: whether we like the new contours of the map or not, they cannot be erased. We shall have to accept them, adapting ourselves and our institutions to them as best we can.

Chapter 3

To Plan or Not to Plan . . .

THE economic convulsions described in the last chapter can all be traced back to one central force—the Federal Government. Faced by the responsibility for feeding the boundless appetites of war, the government had to plan to secure for public use all facilities required to equip the Army and Navy to do the job they had to do. At the same time, since fighting fronts are dependent on the home front, it was necessary to see that minimum civilian needs were met. To make the attainment of these ends possible, the "market system" had to be shelved. Not the forces of supply and demand but the government had to decide how the country's resources should be utilized, what should be produced, who should be employed and where. Moreover, since both goods and labor were scarce, both wages and prices had to be controlled to prevent them from chasing each other up the spiral staircase of inflation.

Inevitably, government wartime controls have led to much grumbling and criticism. Planning has been complicated by the fluctuating fortunes of war; it has naturally been subject to human error; at times, it has been perverted by private interests. But not the most perfect wisdom, foresight, and integrity could have prevented all discontent, for its cause, most frequently, was not the way the war economy was operated but the war economy itself. True, con-

trols were less stringent, shortages less severe, than in most other belligerent countries. But the immediate and obvious danger was also less, and it was only under that spur that the British, for example, cheerfully put up with temporary regimentation.

Nevertheless, if there was frequent kicking against the pricks of a war economy, its necessary disciplines, voluntary and involuntary, were generally accepted in America because they clearly related to a definite national purpose—victory. Now that this purpose is achieved, it does not seem so important to set aside personal plans in the interests of "winning the peace." As a slogan that may command majority approval, as a call for continued sacrifice, it raises too many confusing and controversial issues. Yet, if the government, yielding to the general desire for "normalcy," removes its controls too soon, people rushing toward that goal will certainly get in one another's way and many will be hurt.

Reconversion from war to peace is a vast and complicated process. It involves much more than merely casting out munition-making tools from the factories and replacing them by machines for civil production. The demobilization and reinstatement in civilian life of the veterans, the absorption into other employments of war workers, the disposal of surplus supplies and plants, the dismantling of the war agencies and bureaus—the solution of these problems calls for government planning and direction. Most delicate of all is the central problem of the adjustment of prices and wages, for failure to grapple it will jeopardize all hopes of a stable prosperity.

Mr. Bernard M. Baruch has prophesied five to seven years of booming business and employment after the war, "no matter what is done or not done." Considering merely

the need for goods, not only in this country but throughout the world, the prediction might seem reasonable. Need is not the same as effective demand, but the accumulation of wartime savings does provide a tremendous back-log of purchasing power. At the end of 1944, according to the Securities and Exchange Commission, liquid savings of individuals stood at $140 billion, an increase of $120 billion since 1940. Personal currency holdings and bank deposits alone amounted to $95 billion. So long as this abundance of spending power remains unmatched by an abundance of goods it offers a very potent threat of inflation. If rationing is abandoned and ceiling prices abolished before stores and warehouses are restocked, the result may well be a scramble for goods which will send prices rocketing.

This is what happened after the last war and, as Chester Bowles, director of the Office of Price Administration, has reminded us, the situation this time will be similar but more dangerous, since whereas in 1918 only 25 per cent of the economy was converted to war, in 1945 50 per cent was involved.* The best way to head off a threat of inflation is to increase the supply of goods, but, pending a better balance between production and demand, price controls help to keep the position from getting out of hand. OPA policy, therefore, is to hold down prices as near to the 1941–42 level as possible until the current shortages disappear.

The National Association of Manufacturers, on the other hand, takes the view that unless prices are allowed to rise many industries will be left with little or no profit and will have no incentive to produce.** It is true that, during the war, price control did not prevent most corporations

* Speech to National Conference of Business Papers, reported in the New York *Herald Tribune*, March 20, 1945.

** New York *Times*, March 14, 1945.

from earning large profits, after taxes. Operating at capacity they were able to spread their overhead charges and so, in spite of higher wages and other costs, could usually keep down costs per unit. Many manufacturers, however, are unwilling to fix peacetime prices on the assumption of full production since, if demand falls much below that level, profits will fall faster and perhaps disappear altogether. They prefer to budget for a "break even" point of say 60 or 70 per cent of capacity which affords a margin of safety, if sales prove disappointing, and an assurance of mounting profits if expectations are exceeded.

If controls are lifted too soon and the postwar sellers' market given its head, there may be no visible check to demand immediately. For a time rising prices will encourage distributors and, to some extent, ultimate consumers to make speculative purchases in anticipation of further increases. It must not be forgotten, however, that the incomes of millions of workers, rendered idle by the cancellation of war contracts, are being sharply reduced. Others, no longer earning overtime, are finding their pay envelopes much lighter. Not until the middle of 1946, according to the optimists, will reconversion be sufficiently advanced to permit an upward trend in employment. Thus the holders of mass purchasing power, without whose buying industry cannot prosper, may not spend as freely as businessmen appear to be assuming. They will be apt to hoard savings for a rainy day and postpone acquisitions of new cars, radios and household equipment. Unless some fresh stimulus counteracts this tendency the anticipated postwar boom may prove of short duration. Industry will find sales declining, inventories growing top-heavy. Production will be slashed and workers dismissed, sending the economy into a deflationary tailspin.

Shortage of goods will not last so very long after the war. Once American industry is reconverted its capacity to produce will be greater than ever and the problem will be to generate enough income to absorb its whole output. For if consumption does not maintain a sufficient head of steam in the boilers, the economic ship, becoming unmanageable, will be driven on the same rocks that broke it up in 1929.

The memory of that collapse remains green but, in the minds of spokesmen for the business community, memories of the New Deal are, apparently, still greener. Here is the origin of the major conflict likely to trouble the early postwar years. Popular pressure on the government—any government—to insure full employment, will be tremendous. But so will the pressure of those who insist that the government must not interfere with private enterprise, must "keep out of business," and, above all, must abstain from any attempt to plan the economic affairs of the nation. To plan or not to plan—that is the issue. The struggle over the nomination of Henry Wallace as Secretary of Commerce in the early months of 1945 was but the first of many battles. His banner was inscribed: "Sixty Million Jobs;" his opponents bore down on him, yelling: "No collectivism."

Both sides in this controversy claim to support private enterprise; they disagree on the conditions under which private enterprise can serve best the interests of the American people. The planners assert that the system will break down unless steps are taken to prevent the shattering fluctuations to which it has been subject in the recent past. The government, they say, must assume responsibility for assuring every American an opportunity to work and, in order to do this, it must take whatever measures are necessary to

culations concerning their own production and investment. But the results when toted up fail to reach Livingstone's totals. "This means," Gunnar Myrdal, the distinguished Swedish economist, has written, "that the respective enterprisers merely believe in full employment in general. Actually, everybody wants to pursue for himself plans which will not require of him full employment and production." * We have already noted the reluctance of businessmen to adopt pricing programs based on capacity operations. Dr. Myrdal has also pointed out that, on the basis of Livingstone's analysis, full employment would require a 50 per cent increase in total production beyond the prewar level, and has asked: Where will the demand come from when the government no longer uses half the national income? Most employers say that wages are already too high but any reduction in wages, unless accompanied by an equivalent reduction in prices, would undermine the purchasing power basis of full employment. Even if wages are maintained, will consumers have enough confidence in the endurance of prosperity, to increase their standards of living at a sufficiently rapid rate?

We have long been accustomed to emphasis on the importance of "business confidence," but "consumer confidence" has been neglected as an economic factor. Yet if consumers, fearing that prosperity will prove fleeting, save too much of their incomes, their buying will fail to absorb current production and the result will be its curtailment. Assurance of some stability of employment and income is an essential preliminary to a growth of consumption commensurate with productive capacity—a growth which sceptics too readily assume is completely unattainable. Dr.

* *Atlantic Monthly*, Nov., 1944.

Julius Hirsch, who has also studied the Livingstone data, comes to the conclusion that to employ 54 million persons annually (something short of full employment) will require an increase in volume over 1939 consumption and investment of almost 63 per cent.* Taken literally, he says, "this would mean eating two-thirds more food, spending two-thirds more on laundry, and wearing two-thirds more clothes than in 1939." As this obviously would not happen, consumption of other goods would have to increase by greater percentages and Mr. Livingstone has suggested that sales of pianos and organs might increase by 151 per cent, of stationery by 104 per cent, and of luggage by 166 per cent. To Dr. Hirsch, increases of this magnitude appear too absurd to be worth discussion but with a national income around $140 billion (in terms of 1942 prices), which is what employment on the assumed scale would mean, it is not hard to imagine an enormously widened demand for semi-luxuries. A taste for music and travel is not exclusively confined to the middle and upper income brackets.

It is not possible here to follow all Dr. Hirsch's arguments but it is worth while noting his melancholy conclusion—that private enterprise after the war will not be able to find "more than 48 million jobs at best." This means at least 12 million unemployed whom Dr. Hirsch proposes to take care of by reducing hours of labor and lowering the retirement age, and by public works of a semi-productive nature. The real conclusion of his survey is that the economy of the United States *is* mature; that it *is* impossible to consume all the goods and services that can be produced.

The theory of "a mature economy" has been condemned as New Deal heresy when used to support demands for gov-

* "Where Will 60 Million Jobs Come From?" *Barron's National Business and Financial Weekly*, Dec. 25, 1944.

ernment investment. But businessmen, as a group, appear to believe in it although they shy away from its conclusions. While asserting that government intervention to assure full employment is unnecessary, their organizations are chary of promises that private enterprise can achieve the same end—the risks of non-fulfillment are obvious. The Committee for Economic Development now talks only about "high levels" of employment. The Chamber of Commerce of the United States has declared: "A free society is, to some extent, an unstable society, with attendant unemployment, precisely because it is a free society. Full employment, as conceived by some, can be bought at too high a price. . . . Instead of 'full employment' our objective should be the avoidance of mass unemployment." * Even that objective is expressed as a hope with no guarantee attached.

Opponents of planning have lately drawn much encouragement and comfort from the writings of Friedrich A. Hayek, Anglo-Austrian economist, whose "Road to Serfdom" was boiled down for popular consumption in *The Reader's Digest* of April, 1945. Dr. Hayek repeats the familiar arguments for a free-market economy of the classical economists but, whereas they looked back to the eighteenth century for dreadful examples of the effects of "the dead hand of the state," he seeks his in contemporary Germany, Italy, and Russia. If, he asserts, all the means of production are vested in a single hand, whether it be that of "society" or a dictator, it means the exercise of total power and the loss of all democratic freedoms. He is, therefore, opposed to any conscious direction of the resources of society: in his opinion, only the automatic action of the free

* "Full Employment, Its Politics and Economics." (1944) Bulletin No. 9 in the Chamber's "*Postwar Readjustments*" series.

market responding to supply and demand is a delicate enough instrument to decide how they should be utilized.

But, stout and able champion of the free market as he is, Dr. Hayek is not wholly opposed to government intervention in the economic field. In a passage which *The Reader's Digest* found indigestible and ignored he discusses "the supremely important problem of combatting general fluctuations of economic activity and the recurrent waves of large-scale unemployment which accompany them." Its solution, he continues, "will require much *planning in the good sense*" (italics added), but unfortunately he does not give us his own views about the forms such planning should take. Instead he tells us: "Many economists hope, indeed, that the ultimate remedy may be found in the field of monetary policy, which would involve nothing incompatible with nineteenth century liberalism." He also mentions large-scale public works, though with doubts about their efficacy and a warning of possible dangers. He adds, however, "in any case, the very necessary efforts to secure protection against these fluctuations do not lead to the kind of planning which constitutes such a threat to our freedom. The planning which has such an insidious effect on liberty is that for security of a different kind. It is planning designed to protect individuals or groups against diminutions of their income." *

In a later passage, after indorsing the idea of a minimum of sustenance for everybody, Dr. Hayek calls on us to admit "that with this assurance of a basic minimum all claims for a privileged security of particular classes must lapse, that all excuses disappear for allowing groups to exclude newcomers from sharing their relative prosperity

* *The Road to Serfdom*, p. 122 (University of Chicago Press).

in order to maintain a special standard of their own." *

We have then a distinction between "good planning," which aims at expanding the total market, and "bad planning," which manipulates the market in favor of sectional interests and, in the process, tends to restrict it. The first, ideally, should give consumers more opportunity to exercise the "votes" that they cast when deciding how to employ their purchasing power; the second serves to gerrymander those votes. President Roosevelt in his budget message on January 9, 1945, made a similar distinction. "It is the responsibility of business enterprise," he said, "to translate market opportunities into employment and production. It is the responsibility of the government to hold open the door of opportunity and assure sustained markets. Then and only then can free enterprise provide jobs."

As a witness for the case of the National Association of Manufacturers, Dr. Hayek appears something less than perfect. Moreover his strongest words are directed against just that kind of government intervention which American business has not merely tolerated but instigated for one hundred and fifty years. "Free" enterprise in this country has never, in fact, been willing to abide by the rules of the free market laid down by Adam Smith and restated by Dr. Hayek. Evasion of the rigors of competition is a deep-rooted habit in American business which anti-trust laws have curbed but not cured. Besides, private enterprise has constantly demanded government intervention and assistance. In the early days of the Republic, America's infant industries sought and received protection against foreign competition. *That* was planning for the benefit of industry at the expense of agriculture, *that* was interference in the

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* *Ibid.*, p. 210.

free market, *that* was a conscious effort to direct the resources of society. Tariffs and subsidies have played a considerable part in establishing the pattern of American economy. They still do. Yet in any smoking car one may hear men denouncing "planning" and demanding tariffs practically in the same breath.

One does not have to be a nineteenth century liberal, accepting the dictatorship of the market over all social life, to agree that the creation of special economic privileges is usually a dangerous practice. Public props for particular trades hinder measurement of their relative efficiency, tend to produce a static economy, and thus lead to a waste of national resources. Moreover it is the consumer who provides the real support. If supply and demand, instead of subsidies, determined cotton and silver prices, the capital and labor employed in the production of those commodities would shrink. But consumers who now must pay artificially high prices for shirts and spoons would be able to spend more of their incomes on, say, books and glassware, encouraging an expanded production of these articles.

This is hard doctrine, however, for those whose livelihood has been guaranteed by subsidies or tariffs, and one particularly difficult to appreciate when mass unemployment indicates a failure to make full use of national resources. When men and machines are rusting in idleness, who but a few orthodox professors of economics will dare to say that subsidies to cotton farmers or silver miners are inadmissible? Certainly politicians will not, no matter how hostile they are to the theory of a planned economy. As long as the fear of depression overhangs America, there can be no hope of cutting through the tangle of special privileges. A postwar slump will, in fact, magnify the problem, for, as we saw in the last chapter, many new vested inter-

ests have been created. If the freezing hand of depression grips the land, both capital and labor will cling desperately to whatever shelters they have been able to secure; both will seek to preserve them by every means in their power and, in a democracy, that includes political pressure. Only a dictator sharing Dr. Hayek's views could abolish special privilege in such circumstances.

To end planning for sectional interests there must be planning in the interests of the whole community, planning that does not underwrite the standards of particular groups and individuals but seeks to maintain total consumption at a level making possible the total use of available manpower. Only when this end is achieved will it be possible to say to the silver miner: "You can no longer claim support from the public purse; other opportunities are now open." Or to the trade union: "With general security, the steps you took to limit entrance and thus protect your members' jobs are no longer necessary." Or to the shoe manufacturer: "We have enlarged your market by making sure everyone will be able to buy shoes; you, in turn, must get along without a tariff."

Is the question now, in fact, "to plan or not to plan"? Is it not rather what sort of planning we are to have—a continuation of the time-honored restrictive variety, giving most favored treatment to the groups with the most pull—or planning of the expansive kind which seeks to match full consumption with full production, which attempts to combine security with plenty? On the answer to that question depends not only the future of America but, to a considerable extent, the future of the world.

CHAPTER 4

Can America Export Unemployment?

IF THERE is one point on which planners and anti-planners agree, it is on the vital importance of an enlarged export trade after the war. Assistant Secretary of State William L. Clayton, who headed the largest firm of cotton merchants in the world before he joined the Administration, has stated: "Today we are exporting over $14 billion worth of goods a year. We simply can't afford after this war to let our trade drop off to the two or three billion figure it hit in 1932 during the depression. . . . Some of our best economists estimate that we will probably have to sell $10 billion worth of goods a year abroad if we want to have relatively high level employment and a national income in the neighborhood of $150 billion. In other words, we have got to export three times as much as we exported just before the war if we want to keep our industry running at somewhere near capacity." *

The $10 billion target may be said to have very general support. It figures in the report of the Postwar Advisory Committee of the National Association of Manufacturers as well as in the recommended foreign trade "budget" for 1950 of the National Planning Association. There is also wide agreement that exports at this level would provide

* State Department weekly radio program, March 9, 1945.

from three to five million jobs directly; secondary employment, derived from the expenditures of incomes earned in manufacturing goods for export might add a similar number. So it would appear that, if foreign customers can be persuaded to absorb the surplus goods which cannot be consumed by Americans, there will be no need to worry about a new crisis brought on by overproduction. The mass-production industries, as well as those engaged in the manufacture of capital goods—steel, machinery, and factory equipment, railroad material and so on—see in export markets particularly exciting possibilities. For they offer a means of taking care of that marginal output which often represents the difference between big profits and small, if not between profit and loss.

Suppose you have a factory geared to turn out one million radio sets annually, and your salesmen find they can dispose of only 800,000 in the home market. The price you have set covers all costs including overhead and provides a fair profit at an 80 per cent production rate, so that the other 200,000 units could be sold more cheaply. But if you cut prices in the domestic market, the cut must apply to the whole output. How much better to dispose of that troublesome 20 per cent abroad, even at a much lower price, when by so doing you can keep your workers employed and insure your profits on home sales!

Undoubtedly, export programs can compensate individual manufacturers for lack of home demand and assist them to maintain full production. But this does not mean that American industry as a whole can "export unemployment" by dumping its surpluses on foreign consumers. It is true that exports unbalanced by imports do produce a net increase in the number of jobs available. If it were possible for America to sell $10 billion worth of goods in

overseas markets while holding imports to their prewar level of about \$2½ billion, the effect on employment should be much the same as if industry decided to increase its annual investment in new plant by \$7½ billion. The difficulty is that foreign countries must have something "to use for money." If they cannot earn dollars by selling goods to America, they cannot continue buying American goods. A permanent export balance is impossible unless the United States is prepared to give away goods for foreign consumption.

It has been suggested, however, that as long as there is less than full employment in America, it is advantageous to finance a surplus of exports by loans to foreign countries and by imports of gold. These are certainly steps which the United States will want to take in its own interests and those of the world at large in the immediate postwar period. But they will be dangerous steps if they are looked upon as a permanent one-way detour avoiding the two-way traffic along the avenue of balanced trade. Foreign investments, it is true, will postpone the necessity for achieving equilibrium between the export and import of goods and services and thus, for a time, make a net contribution to American employment. But if loans are not to become gifts by default, interest and capital repayments must be made in dollars and the only way foreign countries can obtain those dollars is by selling goods and services to America. Eventually, payments on old loans will, in fact, exceed the amounts received through new ones and then, in order to benefit from its creditor position, the United States will have to be ready to import more than it exports.

How about payments in gold, it may be asked? The Treasury is authorized to buy unlimited quantities at \$35 per ounce so that there is no problem of foreign imports

depriving American miners of their jobs. At the end of 1944, foreign nations held about $14 billion in gold, so that, assuming they were willing to part with the whole of their reserves, they could finance a $7½ billion excess of American exports for about two years. After that, production of new gold might be sufficient to pay for $1½ billion worth of goods annually if it were all shipped to America. But what advantage can be reaped from accumulating all the gold in the world? Its only economic use is as a means of payment for foreign goods and if it is not used for that purpose it becomes a sterile hoard. It represents the exported energies of American citizens but it can bring them no satisfaction unless the government distributes it in the shape, say, of free gold watches.

"If exports are merely a work-creating project," two bankers have argued, "then their purpose can be accomplished with greater advantage to this country by remission of taxes or by expenditures on well-conceived projects at home. If it is safe for the Government to stimulate employment by buying foreign gold, then it is equally safe to use the money to increase purchasing power in the hands of Americans. From the point of view of inflationary pressure there is no choice between the two methods." *

This is not an argument for economic isolationism nor for a refusal by America either to buy gold or to extend credit to other countries. As long as it remains a universally acceptable "store of wealth" gold performs a useful function in international commerce by facilitating the adjustment of short-term swings of the balance of trade. But if the flow of trade is always in one direction gold becomes immobilized. Foreign loans, too, benefit lender and

* *Goods and Dollars in World Trade*, by Ernest G. Draper and Walter R. Gardner (Federal Reserve Bulletin, Nov., 1944).

borrower alike only if they are regarded not as a substitute for imports by the creditor country but as a means of promoting an exchange of goods.

The whole war-torn world is now hungry for goods of all kinds and is looking to America, with its fields unravaged and its enormous industrial equipment not merely intact but greatly expanded, as its main source of supply. Europe, as a whole, has been ill-clad and half-starved for years. Its stocks of foods, raw materials and every kind of consumable goods are at vanishing point. In many European countries cities and industries have been laid waste and those buildings and factories that remain have long arrears of depreciation to make up. Unless some external help is available, restoration and reconstruction will be a very long and painful business.

Countries outside the war zone have also experienced severe shortages. Latin American states, for instance, have been earning good money by supplying food and raw materials to the United States and other nations, but their imports have been limited by shipping difficulties, and by the fact that many goods of the kind they wish to buy have not been manufactured during the war. Latin Americans, like their northern neighbors, wait impatiently for the day when they again can obtain automobiles, refrigerators and vacuum cleaners. They need hardware, textiles, tools, farm implements and electrical supplies, as well as industrial machinery and railroad material.

Latin America is supplied fairly well with resources to finance purchases in foreign countries. During the war its exports have far exceeded imports and it has been able to build up reserves of gold and foreign currencies, mainly dollars. Between January, 1941, and September, 1944, gold holdings alone of Latin American states increased by $1475

million to a total more than double that in 1928 before the world financial crisis started, and so many of them were forced into default on their foreign obligations. However, most of these countries fear that they may again experience unfavorable trade balances after the war. They note the huge stock-piles of raw materials in the United States and wonder what will happen when American purchases for war purposes cease. Europe does not look as if it can be a good cash customer for some years, and if the United States falls into another slump and is unable to absorb their primary products, they will be headed for trouble. Because of this uncertainty about the future and because, too, most Latin American countries wish to use at least part of their wartime earnings to buy machinery and other capital goods, with a view to diversifying their economies, many of them have tightened import controls. Their object seems to be not so much to discourage imports as a whole but to check the dissipation of their resources by purchases of goods for current consumption. To the extent that the United States is willing to make loans available for development purposes this precaution, which may prove very irksome to American exporters, is likely to be relaxed.

Some European countries have also sizable reserves in gold and dollars with which to finance postwar imports until they can rehabilitate their exporting industries. But none of those involved in the war is so amply provided that it will be able to do away with controls rapidly. Systems of priorities will be essential, with luxuries taking a back seat until necessities have been met. Again, the intensity of restriction will depend on how much outside help is forthcoming. If European countries are forced to finance reconstruction from their own resources, they will be compelled to hold consumption down to a minimum so as to free as

much labor as possible for rebuilding capital. In this event they will be poor customers for American goods and, in addition, are likely to take measures which might prove permanently injurious to American exports. For instance, after the last war, a number of European countries sought to conserve exchange resources by extending the acreage of wheat and other crops with the aid of very high tariff duties. The result was an increase in the world wheat surplus which hit American farmers hard. To avoid a repetition of this situation, it might be to America's interest to make large gifts of wheat and other surplus farm products to Europe.

American exporters of goods naturally wish to receive payment in dollars or in currencies which can be turned into dollars at a fixed rate of exchange. The factor limiting European purchases, therefore, is not needs, which are enormous, but the supply of dollars at the disposal of the would-be purchasers. Apart from existing reserves, this supply can be increased only by sales of goods and services to America, which cannot be very large in the initial stages of reconstruction, and by gifts and loans. Those nations which have been rendered almost destitute by the war are eligible for assistance from the United Nations Relief and Rehabilitation Administration, to whose funds America has made a very large contribution. Dealings with countries which have resources of their own are expected to be on a strictly business basis. Lend-lease was promptly, not to say abruptly, ended on V-J Day, in accordance with a very literal interpretation of the law. Countries wishing for further financial assistance from the United States were told to apply for loans, making out a case for each on its merits and giving evidence of intention and ability to pay.

It is not merely necessary, however, for a debtor to be

willing to pay; the creditor must also be ready to receive payment. Just as foreign countries will husband their dollar reserves with extreme care until the prospects of replenishing them by exports to the United States become clearer, so will they hesitate to incur debts while doubts remain about America's future willingness and ability to absorb their goods and services. In a statement issued during the course of the International Business Conference at Rye, New York, during November, 1944, Curtis E. Calder, President of American and Foreign Power Corporation, and Edward C. Riley, Vice-president of General Motors Corporation, declared: "Since capital loans and investments are actually deferred imports, the burden lies heavily on the creditor country to assure that any foreign loans or investments made bring real economic advantage, not only to the recipient country, but also to the country which exports the capital. The danger confronting the United States today, in its extension of loans and investments abroad, is that it will not willingly face this economic reality and so adjust its tariff schedules as to bring about an excess of imports at some reasonably early date."

Since 1935, when Congress first passed the Reciprocal Trade Agreements Act, the Administration has succeeded in lowering the tariff fence but it still remains a fairly formidable obstacle. And while public sentiment for its further reduction is growing, with increasing recognition by businessmen that it hinders the export trade they wish to develop even more than it checks imports, there remains a strong opposition which seeks to increase rather than diminish protection. Yet, as the New York *Times* has pointed out: "If ever a great opportunity existed to reduce tariffs it is now. Many protected industries have been converted to other purposes and we now have, to an extent that we have not had before, the choice of returning to a

pattern of production based on high tariffs or to a pattern based on low tariffs." *

The most characteristically American industries—the producers of automobiles, household equipment, machinery of all kinds—are not among those insisting on protection. They do not accept the argument of the New York *Sun* that "slashing of our tariff is equivalent to bringing in low labor standards," ** since, thanks to greater efficiency and the advantages of an enormous home market, they can pay far higher wages than their foreign competitors and still enjoy lower labor costs per unit. The industries that demand the protection of "American standards" are usually those which have proved least able to maintain them.

As we noted in Chapter 2, the strategic center of the tariff forces has shifted in recent years. It is now not so much the industrial east as the farming and mining west that seeks a shelter from foreign competition. The wool growers, the stock raisers, the beet-sugar interests, the cotton planters, the non-ferrous metal miners, have all become dependent on tariffs or subsidies, or both. Supporting one another's claims they can command strong political backing and their ranks may well be swollen after the war by other food and raw material producers.

Undeniably, the total abolition of the tariff in one step might lay waste large sections of the country. "The whole social structure of such areas as the Rocky Mountain region has been built on the assumption of tariff protection and other forms of social subsidy, and the vested interests thus created involve the majority of the population there." † On the other hand, if American industries are forced to buy

* March 3, 1945.
** March 28, 1945.
† "The Future of Foreign Trade Controls," by Albert T. Lauterbach. *American Journal of Economics and Sociology*, Oct., 1944.

their raw materials at prices far above the world level, they will be severely handicapped in export markets unless they are able to secure rebates on that part of their production sold abroad. Moreover, it seems absurd to stimulate by means of tariffs the production of natural resources, depletion of which is becoming a matter of national concern. The mounting costs of metal mining, compared to those in foreign lands, are largely due to the fact that the highest grade and most accessible ores are becoming exhausted. Protected prices will speed up the rate of depletion, thus making for still greater costs and leading to a demand for still higher tariffs. From the point of view either of national economic advantage or of national defense, it would seem more sensible to import cheap foreign metals and keep American ores as an underground reserve against future contingencies.

When advocates of tariffs say that their reduction or abolition creates unemployment they commit the fallacy of reasoning from the particular to the general. Every dollar's worth of goods imported makes possible a dollar's worth of exports. Employment lost in Nevada is employment gained in Detroit. But the enthusiasts who see a cure for unemployment in a vast expansion of exports fall into the same logical trap. In the long run, as we have seen, international accounts must balance and jobs added by exports will be matched by jobs subtracted by imports. In fact there might be a net loss of employment since the exporting industries are likely to be the most efficient, and consequently a dollar's worth of exports may include on the average less "labor time" than a dollar's worth of goods displaced by the corresponding import.

What then, it may be asked, is the point of pushing exports? One debunker of the policy, spokesman for an industry which is, or believes itself to be, exposed to postwar

British competition, has put forward the view that the United States should be content with "a modest share" of the world's trade. Otherwise, he suggested, "we will go down the same old road once again. Struggling to maintain our sales abroad we will accept gold, bonds, I.O.U.'s, and all kinds of obligations only to find that we end up by giving our exports away because we forgot that the real purpose of foreign trade is to exchange our own goods for something which we did not already have." *

This is an incomplete definition. The real purpose and value of foreign trade is to exchange the goods we can produce most advantageously for those which we do not have *or which other countries can supply more economically*. That is to say, it is a way of stretching resources as much as possible and so raising the standard of living. American industries are not equally efficient. A day's labor in a refrigerator plant may add twice as much value to raw material as a day's labor in a woolen mill. If, therefore, it is possible to exchange American refrigerators for British tweeds, there is clearly a more economical use of manpower. This fact is obvious enough when the exchange takes place within a country. Anyone can see how absurd it would be for Connecticut to attempt to grow sufficient wheat in its stony fields to feed its population when Kansas can produce wheat at far lower cost. Yet is it any less absurd to waste manpower growing beet-sugar in Utah when the same amount of manpower applied to making steel could buy two or three times as much Cuban sugar? Foreign trade, properly conceived, is a great labor-saving device —a fact that America, which rightly prides itself on labor-

* Arthur Besse, President of the National Association of Wool Manufacturers, in an address to the Sales Executives Club of New York, Apr. 11, 1945.

saving methods, has never fully appreciated. Nor is appreciation likely while the truth of this basic economic principle remains obscured by the even greater wastage of labor involved in mass unemployment.

Economic theory is one thing; the economic facts of life are another. They include habits, conventions, psychological attitudes, and political pressures. So we cannot assume that actual economic behaviour will conform with the economists' descriptions of things as they should be. After the war, there probably will be a gradual reduction in some American tariffs because powerful business interests are beginning to push open the door. But progress in this direction may be slow, since other groups with important political influence will be intent on pulling it shut. Such groups will, no doubt, decry policies designed to expand exports having come, at least, to the point of recognizing that the admonition of the elder Cato to Roman farmers—"always sell and never buy"—is nonsense in any language. Their solution of the dilemma will be to achieve a balance of international trade at a low rather than a high level. But it is too much to hope for any consistency. The tariff bloc includes farm organizations whose members want both protection of the domestic market and foreign outlets for their surpluses.

Regardless of what steps are taken either to ease or to hinder payments by America's overseas customers, the drive for exports is likely to prove formidable. In particular, the heavy industries, whose prosperity depends on a high rate of investment, are bound to seek wider markets. Even before the war there was reason to believe that they had outgrown domestic demand. They were geared to a rapidly increasing population but the expansion of population had been checked by restriction of immigration and decline in

the birthrate. Once certain wartime shortages have been overcome, prospective needs for new capital equipment in America may well prove far below the war-expanded capacity of these basic industries. Even under conditions of full employment it will be difficult to consume within the United States the 95 million tons of steel that the furnaces can turn out annually, or all the locomotives, railroad cars, machine tools, and earth-movers. A policy of self-sufficiency, of holding foreign trade to a minimum, would make it necessary to contract these industries just as a policy of tariff reductions would make it necessary to contract those lines of production which cannot get along without protection. But as America's heavy industries are, by and large, among its most efficient, their deliberate discouragement would tend to make for a lower standard of living.

Moreover, the war-devastated countries are in desperate need of capital equipment and, when their requirements have been met, there will be a vast potential market in the undeveloped regions of the world—Latin America, China, India, Africa. A combination of eager foreign buyers and of eager American sellers almost certainly will generate credits as it did in the twenties. The problem will be to avoid the errors which led to so many of the foreign investments of that era turning sour. Bankers frequently showed bad political judgment; they thought fascist Italy a good risk, Soviet Russia a bad one. Nor was their economic judgment above criticism. In too many cases, they gave little consideration to the use of the money which they lent, or rather, induced their clients to lend.* But when the debacle came, it was not only loans made to dictators to build

* See evidence presented to Senate Finance Committee in 1931 and 1932.

marble palaces that were defaulted; some reliable governments which had borrowed for productive purposes were also forced to suspend payments. The cause of America's unhappy experiences as a creditor nation can, in fact, be ascribed less to the intrinsic worthlessness of the loans made or the dishonesty of the debtors than to the inability of the foreign countries to earn sufficient dollars to meet their liabilities.

The era of default was heralded in 1929 by a sudden drop in the outflow of American investment funds—a by-product of the Stock Exchange boom which drew available savings into speculative channels. With the collapse of the stock market and the beginning of the depression American demand for foreign merchandise fell away even more abruptly. The result was that the supply of dollars to foreign countries through trade and other transactions, which had ranged between $7.3 and $7.5 billion in the four years from 1926 to 1929, fell in the next three years by some $5 billion, or 68 per cent.* As the American economy nose-dived, foreign and domestic debtors alike went to the wall; the cause was the same in both cases—the collapse of purchasing power.

It can happen again unless the postwar period, during which foreign demand will help to sustain purchasing power, is used to adjust internal American policies so as to make possible the permanent stability of employment at a high level and the absorption of a gradually rising volume of imports. The two objectives are really the same, for without a high level of domestic employment there cannot be a good market here for other countries, nor will it be possible to contract with a minimum of hardship those

* "The United States in the World Economy," by Hal B. Lary and Associates (Washington, Government Printing Office, 1943).

industries which depend on protection. The reduction of tariffs is, however, the minor half of the problem. It is important because, first, as we have seen, tariffs hinder the most economical use of manpower and other resources; second, because they are a symbol of American economic isolationism. Only as they are lowered are other nations likely to begin demolishing their own barriers.

But the removal of obstacles to international trade will be in vain unless America takes steps to guard against deflation and unemployment. As an authoritative statement puts it:

> Past experience clearly indicates that the greatest contribution toward a large and stable flow in the supply of dollars—indeed an indispensable one—lies in the maintenance of a high level of national income and production in the United States. Achievement of such a goal is desirable for reasons of internal stability and progress, in addition to international considerations. Moreover, as domestic factors appear to have been chiefly responsible for the violence of our economic fluctuations in the past, so the remedies must be found largely through the development of a sounder internal and financial structure. The causal relationship between internal and external stability, however, runs in both directions, since a large and flourishing export trade would greatly stimulate domestic business activity.*

In other words, foreign trade, in itself, cannot solve America's employment problem, but full employment is the key to the problem of America's foreign trade.

* "The United States in the World Economy," by Hal B. Lary and Associates (Washington, Government Printing Office, 1943).

PART III. POSTWAR BRITAIN

CHAPTER 5

Why Britain Must Plan

BRITAIN'S postwar economic outlook, broadly speaking, is in marked contrast to that of the United States. Here, after a boom of uncertain duration, over-production and under-consumption threaten a deflationary crisis; there over-consumption and under-production might, in the absence of preventive measures, bring about inflation. Here the major problem may seem to be the maintenance of employment, there the maintenance of the standard of living. In international trade, the United States must expand imports in order to enjoy the export business it desires. Britain, on the other hand, is faced by the question: how to expand exports sufficiently to finance its necessary minimum of imports. In short, while America fears the pangs of surfeit, Britain has cause to worry about undernourishment.

There is also a great difference in the political approach to economic problems in the two countries. Here there is a sharp cleavage between the advocates and opponents of a planned economy. In Britain, the necessity for government intervention is no longer a matter for debate; it is accepted by all parties and all interests. This does not mean that there is no controversy about planning, but it is not the principle that is in dispute; it is the methods, the details and, particularly, the ultimate objectives. Conservatives

hope by planning to make possible the continued functioning of private enterprise; they want, at most, to supply a new and more durable frame for the capitalist picture. In some ways their position is similar to that of the New Dealers. On the other hand, the Labor Party, theoretically at least, regards a planned economy not as an alternative to socialism but as a smooth, democratic road to that destination, bypassing the direct but rough path of revolution.

These attitudes are not new; they have been implicit in British political behavior for forty years, ever since the Labor Party first appeared in strength in Westminster. In the interwar period, the gravitational pull of the program of the left on the policies of the right grew ever stronger and, as a result, the trend toward the "welfare state" became sharply defined. The present war has developed both the theory and practice of planning in Britain, by demonstrating the effectiveness of state mobilization of the total resources of the country. Moreover, the necessity for unity in the face of national danger proved a compelling reason for improving the lot of those whose stake in the community was the slimmest, and of promising still further improvements after the war.

The social and political forces moving Britain toward larger measures of state planning derive additional strength from the magnitude and nature of war-created problems. Since it mobilized a greater proportion of its resources than the United States, Britain's economy has suffered even more distortion. Nevertheless, in some respects, reconversion may prove simpler. For instance, the migration of workers from one industry to another and from one part of the country to another has been still more extensive than the shifts here described in Chapter 2. But the reversal of this process will be assisted by the compactness of Great Britain, by the

government's assumption of responsibility for returning to their homes all those who moved under orders, and by provisions made for retraining.

Some American commentators have asserted that Britain will be in a better economic position than the United States because the growth of its national debt has been relatively smaller. But the size of a country's internal debt has no bearing on its capacity to produce real wealth; that is affected only to the extent that war destroys or consumes the actual means of production. Modern war is necessarily on a pay-as-you-go basis and its demands must be met mainly by increasing current production and decreasing current consumption, in other words, by sweat and abstinence now. So far as this country is concerned, it appears that, on balance, its wealth-producing equipment has increased during the war.

Britain, on the other hand, has suffered a wasting of its capital assets, though to a lesser degree than some continental countries. Yet for nearly five years Britain was a battlefield and enemy action caused very extensive damage. Full details are not yet available but preliminary estimates place total property losses at nearly $5 billion. Another form of capital wastage is depreciation of Britain's plant. The shabbiness of Engish cities which strikes every American visitor reflects the fact that only maintenance and repair work essential to the war effort has been possible. The deterioration of all forms of capital equipment has meant a "disinvestment" which amounted to $1.9 billion by the end of 1944, and had probably risen to well over $2 billion by the end of the war. Moreover, much of Britain's industrial plant, already outmoded in 1939, has now become definitely obsolete particularly by comparison with modernized American factories.

The resulting inefficiency of many industries is all the more serious because another form of disinvestment—the liquidation of foreign assets—makes expansion of exports absolutely vital. Before the war Britain imported nearly twice as much as it exported, thanks to the "invisible" credit items in its trade balance. But the sale of foreign investments to finance purchases of war material promises to halve the largest of these items—interest and dividends received from abroad. In addition, Britain has incurred huge debts to foreign countries, apart from Lend-lease, which now take the form of frozen sterling balances. When these debts are funded service on them will exceed payments on Britain's remaining foreign investments.

Britain's standard of living depends heavily on imports, 80 per cent of which, before the war, consisted of food and raw materials. Without overseas products the British larder would be both bare and uninteresting. Most bread is baked from flour of foreign origin. More than half the meat supply before the war came from abroad together with a large part of the feed for fattening domestic stock. Something like 90 per cent of the butter eaten in Britain, 75 per cent of the cheese, and 80 per cent of the sugar was foreign produce. Tea, coffee, cocoa, citrus fruits and tobacco are, of course, all imported. During the war subsidized and intensified home production made possible drastic reductions in some foreign food items; the less essential were cut out altogether.

The industrialist depends on foreign supplies no less than the housewife. Except for coal, Britain is poorly supplied with raw materials. It must import practically all its oil, a large part of its iron ore, the bulk of its non-ferrous metals, lumber and other wood products, textile fibers and

hides. To fill the requirements of the war factories some of these materials were bought in larger quantities than normal but the need for economizing shipping space, together with shortage of foreign exchange, severely limited materials intended for civilian production.

In addition, the diversion of all possible manpower to war purposes reduced the supply of goods available for consumption. For Britons the watchword was strict "austerity." Stomachs were appeased but there was not often very much to tickle the palate. Many kinds of durable goods disappeared from the market altogether. New furniture was available only for those bombed out and for newly married couples. In the middle of 1944, an official statement declared: "The present clothing ration provides roughly one-half of the prewar consumption of clothing. . . . Only about one household in ten can now buy a pair of sheets and one household in five a pair of blankets each year. Only one person in seven can now buy each year a knife, fork, or spoon; one person in three a kettle, saucepan, or frying pan, one person in four a teapot or jug. The manufacture of carpets, vacuum cleaners, refrigerators, and other household appliances is virtually prohibited." *

The end of the war has seen British consumers stripped pretty well to the bone. They now want to replenish their wardrobes, redecorate and refurnish their homes, re-equip their kitchens. They will be in the market for automobiles, bicycles, cameras, radios and all sorts of other goods. And their long pent-up appetites are matched by stored-up purchasing power. Savings, voluntary and compulsory, have expanded on a relatively similar scale to that in America; in

* White Paper on Employment Policy (New York, Macmillan, 1944).

the first five years of war they amounted to $33,200,000,000—equal to the British national income at its present swollen level.

It will be a long time, however, before supplies become normal, and controls will have to be relaxed gradually. Even more swiftly and certainly than in this country, premature abandonment of rationing and price ceilings would spell inflation. For in Britain a rush to buy would be immediately reflected in the demand for imported goods and materials. If the government freed the home market but continued to restrict imports, it would mean the expansion of buying pressure within a confined space and an explosion would not be long delayed. On the other hand, removal of import controls would create a demand for foreign currencies which would eat rapidly into the government's reserves.

Again, in order to increase its ability to import, Britain must step up exports as rapidly as possible. During the war, when little labor or material could be spared for this purpose, they sank to about 50 per cent of prewar value and 30 per cent of volume. With the termination of Lend-lease, which provided Britain with a large part of its food and raw material needs as well as munitions, it is now necessary to give exports a triple-A priority. But if consumers are given their heads, and supply and demand allowed to determine prices, manufacturers will naturally tend to neglect foreign customers and go after the easy business at home. Consequently, until the trade balance is more nearly restored, government planning must substitute for natural market forces. Measures must be taken to damp down home demand, a tight rein must be kept on imports, everything possible done to stimulate foreign sales. Thus the Board of Trade is said to be insisting that, in industries whose prod-

ucts are suitable for exports, allocation of output must be on the basis of two-thirds to the home market, one-third to exports. Control over manpower, and still more over materials, provides a means of enforcing this order.*

Here is a task that calls for very delicate handling. The average Briton will appreciate that housing must have precedence over almost all other needs, and that the rebuilding of schools and hospitals is more urgent than the restoration of country clubs. But a public opinion poll in 1944 indicated a wide lack of understanding of the fact that since Britain must import to live, it must export or die. Consequently, the limitation of meat imports in order to conserve foreign exchange to pay for building lumber, or the assignment of textiles to foreign markets while clothes rationing continues at home, is likely to cause discontent.

Psychologically and politically, it would be difficult, in fact, to attempt to hold consumption to wartime standards, even though by so doing internal reconstruction and recovery of export trade might be speeded. Some relief from enforced frugality there must be, and in the interests of morale fairly high priorities may be given to goods which are not strictly speaking necessities. It may be considered important, for instance, to give early satisfaction to the British craving for oranges and bananas; or to increase the clothing ration even though this reduces the volume of textiles available for exports. In this connection it is noteworthy that, despite the need for conserving dollars, the British government has permitted increasing imports of American films during the war, the value in 1943 being more than twice that in 1939.

* One of the first legislative measures taken by the new Labor Government was the introduction of a bill extending price and production controls for at least five years.

How are the postwar expectations of the British people to be fulfilled while keeping the economy on an even keel? That is a question that threatens endless headaches for department heads in Whitehall no matter what their political complexions. Yet these expectations are by no means extravagant. British workers, like their American fellows, feel that their wartime money-wages—their actual "take-home pay"—should at least be maintained and that they should be able to buy more with it. They demand that promises of a rapid increase in houses, of a wider program of social security, of improved health facilities, of increased educational opportunities, and, above all, of a high and stable level of employment, should be honored. And in these demands they now have the support of an increasing proportion of the salaried middle-class. That is one reason why the General Election of July, 1945, resulted in a Labor landslide.

Apart from all political considerations, satisfaction of popular demands for security and higher living standards seems a necessary preliminary to the solution of what, on the long view, is Britain's major national problem—the problem of how to prevent an absolute decline in population. At present the population is still growing but the rate of increase is very slight and the average age is increasing. More old people must be supported by a diminishing number of men and women of working age and, unless current trends are soon reversed, total population will begin to shrink rapidly after 1970.

In the period 1931–40, the natural rate of increase in England and Wales has been 27 per thousand, a quarter of that in the first decade of the century. The position, however, is more vividly expressed in terms of the potential mothers of the next generation, only three of whom reach maturity for every four women who die. Unless, therefore,

a rise in fertility offsets the declining number of women of child-bearing age, it will be impossible to maintain births around their present annual total—about 700,000—which is just enough to produce a stationary population.

There is growing concern in Britain about this problem. All serious students of the subject agree that the causes of declining fertility are extremely complex and that it cannot be arrested by any simple remedy. While deliberate family limitation is admittedly spreading there is no inclination to attempt to counteract it, à la Hitler, by prohibiting the manufacture or sale of contraceptives. A Royal Commission on Population set up in 1944 is considering the reasons which induce family limitation, as a preliminary step to examining ways and means of encouraging larger families. Low standards of living, in themselves, do not result in a low birth-rate; the poorest communities are often the most prolific. But this does not mean that economic factors can be left out of account. Among married couples who are responsible and educated—an increasing proportion—insufficiency of present income or insecurity about its continuance certainly are reasons for avoiding or postponing parenthood. During the war, discussions among service personnel, under the auspices of the Army Bureau of Civil Affairs, have shown quite decisively that fear of unemployment among younger men and women is an important factor making for small families in Britain.

Economic security alone may not prove the solution to the problem but its absence will surely make it insoluble. For one thing, unfavorable economic prospects after the war will certainly encourage the more enterprising young men and women to emigrate and thus deprive Britain of many potential parents. Most of the Dominions are seeking promising settlers, realizing that they must build up their

populations to match their enlarged economic equipment. Australia is definitely bidding for immigrants, preferably British, both for this reason and because of considerations of national security. And there are signs that a move overseas enters into many private postwar plans. British industrialists, the New York *Times* reported from London on April 9, 1945, are already growing apprehensive about the situation. One of them is quoted as saying: "This trend toward migration to other parts of the Empire is a serious thing for British industry and a threat to Britain's place in foreign markets. It means that the labor handicap under which consumer goods industries now are operating may carry over indefinitely after the war. Of even greater importance is the fact that the young, venturesome and aggressive element in the population will go abroad and thus strip British industry of the most valuable division in its home labor supply."

Here then are compelling reasons, from the national point of view, for strenuous efforts to make Britain "a land fit for heroes"—a rhetorical promise of the last war which led to many bitter jests in the years that followed. So far as employment is concerned, apart from temporary dislocations during reconversion, it appears probable that there will be more jobs seeking workers than workers seeking jobs—Sir William Beveridge's definition of full employment. But will production be sufficient, even if all available manpower is utilized, to provide for social objectives, including a vast home building program, to restore and develop industrial plant and to improve the workers' standard of living?

Britain must find a way to square a vicious economic circle. A higher standard of living implies more imports, more imports can only be paid for by greater exports,

greater exports in a competitive world will be dependent on greater industrial efficiency, which, in turn, demands increased investment on a scale difficult to reconcile with an early expansion in consumption. The fact that wartime money savings are vast and industries have large cash reserves has nothing to do with the case. It is a question, as *The Economist* has observed, of "the relationship between a pint and a pint pot." Real investment—the construction of actual buildings and machinery—must come out of production in the year in which it is made, as must whatever goods are consumed in the same period. Six years of deferred maintenance plus the necessity of modernizing many British industries plus housing, school and hospital building programs means that a larger proportion of total output must be devoted to investment than before the war. Of course with full employment, instead of an unemployment rate of 13 per cent as in 1938, production should be higher. On the other hand employed men consume more than unemployed.*

It appears that Britain can have more consumption in the early years after the war only at the cost of foregoing

* In his statistical appendix to Sir William Beveridge's "Full Employment in a Free Society," Dr. Nicholas Kaldor, of the London School of Economics, gives a number of hypothetical plans for full employment outlay in 1948, assumed to be the first normal postwar year. Private consumption, if restrained only by rates of taxation moderately higher than in 1938, would, he suggests, rise by 19 per cent over the prewar level. This would leave for net investment, public and private, a sum which he admits would allow "only a modest increase in the rate of capital expenditure in industry and housing." Another plan, making possible double the prewar gross volume of investment and a British contribution to European reconstruction—a more realistic appraisal—would still permit a 7 per cent increase in real private consumption. However, *The Economist* (February 24, 1945), criticising Dr. Kaldor's estimates of gross national income as too high and his allowances for capital formation as too low, suggests that for a period of years an actual decline in consumption will be required to avert "a famine of capital."

additions to capital without which a rising standard of living is likely to prove impossible. But how is the choice between alternative uses of scarce means to be made? "The classical method of a free economy," according to *The Economist*, "would be to issue unlimited credit to those who want to undertake capital expenditures and let it exert an inflationary effect on prices." * The result would be a fall in the purchasing power of wages and fixed incomes but an increase in profits which, it is assumed, would be reinvested in new plant.

Still more orthodox, and perhaps still more painful, would be the deflationary solution to the problem. This would entail drastic reduction in government expenditure with a view to repayment of debt. Taxes on profits would be reduced but excise and other levies which restrain consumption maintained. Prices would fall sharply and, for a time, production would slacken and unemployment rise. This would make possible a downward revision of wages, particularly if government economy measures included a decrease in the rates of unemployment pay. A shrinking home market and low prices would discourage imports but stimulate exports, thus providing British industry with profits and the means of capital accumulation.

Both these methods square the vicious circle by compressing the workers' standard of living. But so would a communist solution of the problem. Stalin, faced by the need of hastening the industrial revolution in Russia, gave capital formation a prior claim on national income. The

* February 24, 1945. This method would be very disagreeable to American business for it would be necessary to remove exchange controls, allowing sterling to sink until it reflected the degree of internal inflation achieved. Thus British goods would become cheaper in terms of foreign currencies and more competitive with American.

output of consumer goods was kept to a bare minimum, wages were held to a subsistence level, personal expenditures were restricted by rationing and other devices. As in the British industrial revolution, the lot of the workers was enforced abstinence. But there was this difference: in a capitalist economy the results of abstinence—savings—accrue to the owners of the means of production; under socialism, they add to the estate of the whole community.

Neither the purely capitalist nor the purely communist approach to the problem lies within the realms of practical British politics. The degree of regimentation required by a five-year plan on Stalinist lines could be imposed only by a dictator. It would involve, moreover, the wholesale nationalization of industry, a step which most British socialists are not prepared to take at this stage. But both the "free market" methods would provoke such violent hostility, so sharp an outbreak of industrial strife that they, too, could be put into effect only if democratic rights and constitutional liberties were first swept away.

Has Britain, then, only a choice between dictatorships or can it, with its genius for political compromise and social experiment, find a middle way? That seems to be the road chosen by all political parties in Britain despite acute differences of opinion about its exact location on the economic map. Wartime experience of a planned economy provides a number of pointers. If the government is to accept responsibility for insuring a full investment program, as it has accepted responsibility for maintaining employment, it must continue to budget manpower and resources. It follows that the assignment of a top priority to capital formation must be accompanied by some provision for distribution of the balance available for consumption. Assuming that this balance proves inadequate to meet all demands, it

will probably be necessary to continue rationing, though on a more generous basis than during the war. It will be essential to encourage savings and, to the extent that they prove unequal to the scheduled rate of investment, to drain off surplus purchasing power by taxation in excess of normal government expenditures. This will enable the government to undertake direct investment for the general benefit. Housing will undoubtedly absorb a large volume of its funds, and large-scale public works, such as the Scottish Highlands hydro-electric scheme, may be another outlet.

In the "King's Speech" which summarized its legislative program for the 1945–46 Parliamentary session, the new Labor Government announced plans for the public ownership of the Bank of England. Thus the British Treasury, which ever since Britain left the gold standard in 1931 has effectively controlled the volume of credit, will obtain power to decide the directions in which it is to be used. Nationalization of the coal industry, also promised, will give the government direct responsibility for the investment policies of a key industry which needs large amounts of capital to restore it to efficiency. If the power, steel and transport industries are also socialized, in accordance with the Labor Party's program, nearly all major outlets for investment will be in the hands of the state. At the same time, however, a wide sphere for private investment which the government will influence but not control will remain in the consumption industries and in distribution. The advent of Labor to power in Britain means, in short, a new attempt to operate a mixed economy—a venture which, in smaller countries, has met with a considerable degree of success.

This is no more than a very sketchy draft of the kind of sailing directions Britain has adopted in order to steer

between the rocks of communism and the quicksands of the free market.* It may prove a far from simple piece of navigation since it clearly demands tacit agreements to refrain from obstructing the helmsman by the great vested interests that stand behind both major parties. The industrialists and landlords who dominate the Conservative Party will have to be resigned, if not reconciled, to the continuance of controls and high taxes both of which they heartily dislike. The trade unions, which carry decisive weight in establishing Labor Party policy, will have to accept stabilized wages and the modification of practices which tend to restrict production.

Another obstacle is the fact that the general public is, not unnaturally, still thinking in terms of the prewar situation. It is worried about unemployment and surplus production and has not conceived the possibility that there might be relative shortages in spite of full employment. For that reason any program for limiting private expenditure in the interests of investment must look beyond the period of scarcity to the time when savings will once again threaten to outrun investment opportunities. Then the stimulation of consumption will be as much of a necessity as its discouragement appears to be now.

There has been, perhaps, some reluctance in Britain to accept the full implications of the economic Dunkerque which the country has suffered as the price of victory. But the sudden end of Lend-lease forced it to face the problem as squarely as it faced the problem of national survival in 1940. It is going to be a tough test for the British people and the party to which they have intrusted their destinies for the next five years. Is there in the ranks of Labor a man who

* The three following chapters discuss in detail problems of social security, foreign trade, and industrial efficiency.

can brace his fellow-countrymen to grapple with economic peril as Churchill braced it to grapple with military peril, a man who is equally bold in telling disagreeable truths, who can arouse the same spirit of unity, who can inspire the people to work for prosperity as they worked for victory? If it is true that nations get the leadership they deserve, Britain should find the statesman the hour demands.

CHAPTER 6

What Britain Is Planning

> We should regard Want, Disease, Ignorance and Squalor as the common enemies of all of us, not as enemies with whom each individual may seek a separate peace, escaping himself to personal prosperity while leaving his fellows in their clutches. That is the meaning of social conscience; that one should refuse to make a separate peace with social evil. Social conscience, when the barbarous tyranny abroad has ended, should drive us to take up different arms in a new war against Want, Disease, Ignorance and Squalor at home—SIR WILLIAM BEVERIDGE.*

WAR against these "Giant Evils," as Sir William Beveridge calls them in another passage, was in fact declared by the British people when, on July 5, 1945, they voted the Labor Party into power with a large majority. There is no doubt about the meaning of the mandate bestowed by the electorate, for the campaign was fought almost entirely on domestic bread-and-butter issues—employment, housing, health, living standards. Up to a point, indeed, all the party programs agreed on these matters: all supported the fairly detailed plans for advancing social welfare which had been worked out by the wartime National Government representing, in rough proportion to their numbers in the House

* *Full Employment in a Free Society* (New York, Norton, 1945).

of Commons, the Conservative, Labor and Liberal parties.

As the work of a coalition these plans naturally embodied a good many compromises. The Conservatives tended to look upon them as the maximum that could be achieved within the framework of the existing economic system. Labor regarded the program as a minimum and made clear its intention to provide a "New Deal" for the British people even though that necessitated interference with private enterprise. More than that, it declared in its election manifestoes that effective planning to maintain full employment and raise living standards required the nationalization of certain key industries. The Conservatives came back with a defense of free enterprise on familiar lines, asserting that the Labor Party's socialist plans would lead to "totalitarianism." They failed utterly to impress the voters who, deciding that Labor was likely to attack the "Giant Evils" with greater vigor than its opponents, marked their ballots accordingly.

Owing to the dramatic shift in Britain's political climate, the plans summarized in this chapter are likely to be amended with a view to making social legislation broader in scope and more liberal. Nevertheless they will form the basis of the Labor Government's welfare program and, in principle at least, will command support of the opposition too. For the Conservatives, having assisted in drawing up these plans, are fully pledged to aid in their realization.

This was made plain by Anthony Eden, heir-apparent to Mr. Churchill as leader of the Conservatives, when in the course of a debate in the House of Commons on December 2, 1944, he declared:

"We have set our hands to a great social reform program . . . and even though there be an interruption it is the intention of each one of us who are members of the Government to

carry that program through. I have no doubt that . . . if a Labor Government were returned, that Government would put through whatever was outstanding in this program. And I can say, on behalf of the Prime Minister, that we, as members of the Conservative Party, would give them support in putting through that program to which the members of each party in the Government have put down their names. . . . The undertaking I want to give the House is that there is no question of that program being allowed to be lost or to fade away."

One thing is clear: the offensives against the Giants must be coordinated and simultaneous since each one supports the others. It is not much use raising educational standards for children too ill-nourished to benefit by them or for those whose health has been undermined by life in overcrowded slums. Want, ignorance and squalor breed disease; disease in turn is frequently a cause of want and squalor. And, aside from humanitarian considerations, increased efficiency in production, which is a vital British need, can hardly be achieved without the defeat of these evils. Realization of this fact, by interests not easily moved by eloquent appeals to social conscience, is one reason why British conservatives have backed social planning to a degree that horrifies some of their American fellows.

THE BATTLE AGAINST WANT

When opponents of social security say that, if want is abolished, incentives to work will be destroyed, they confuse want with wants. Moreover, they imply that the average worker is content so long as his animal instincts for food, shelter, procreation and sleep are satisfied. Anyone who has observed the mental and moral anguish that unemployment causes to so many knows that this argument is as untrue as it is snobbish. There are pathologically lazy

people in all classes but the normal worker is just as concerned as members of other classes with providing his family with as good a life as possible and better opportunities than he has had himself.

Protection against want does not imply public provision of a higher standard of living than a man can earn by his own efforts. It guarantees no more than assurance of subsistence; enough food to ward off malnutrition, enough clothing and shelter for decency. This is not a great deal but it is much more than what one-third of the British nation had before the war, even though there had been a very substantial improvement in conditions during the previous two decades. A survey made by Mr. Seebohm Rowntree in the City of York in 1936 showed that 31 per cent of the working-class population there was living below the poverty line—that is to say on incomes insufficient to secure the bare necessities of life, making no allowance for entertainment, tobacco or other "luxuries." Similar inquiries during the prewar years in a number of other representative British cities gave broadly similar results. They also agreed that interruption or loss of earning power due to unemployment, old age, sickness and accident were the most usual causes of want. Apart from these hazards, the chief reason found for the fall of families below the poverty line was simply that they were too large. Wages have never been related to family responsibilities and either lack of knowledge or religious conviction prevents many workers from adjusting their families to their incomes.

The all-party social security program of 1944, based on Sir William Beveridge's famous report though differing from it in a number of details, seeks to make provision against all these causes of want. Its great virtue is that it enlarges, strengthens, and coordinates a system of social

protection which has been built piecemeal over a forty-year period. Thus old-age pensions on a very meager scale were introduced in 1908. Health insurance followed a few years later together with a limited experiment in unemployment insurance, which in the twenties was broadened to cover most wage earners. Widows' pensions were authorized in 1926. But, as the social surveys mentioned above showed, these provisions were neither comprehensive nor generous enough; they forced the giant Want to retreat but he continued to hold important bridgeheads.

The new plan takes everyone under its umbrella, rich and poor, employers and employed, married and single, old and young, though the payments made by each person and the benefits received will vary according to his or her way of life and requirements. Maternity grants, retirement pensions, widows' pensions, guardians' benefits and death grants will be available to all. So will family allowances paid for every child of school age after the first, and health services. Unemployment and industrial injury payments will be made only to those earning wages or salaries but they will be due to the manager of a great concern equally with its humblest employee. So will sickness and invalidity benefits, which also apply to workers on their own account but only after the first four weeks of illness—a curious discrimination. Nor will those in this group receive unemployment benefit if their trade fails them, though it appears that they may qualify for allowances at a rate higher than unemployment benefit, which are payable to jobless men and women who take an approved course of training.

To attempt even to summarize the rates and conditions of the benefits payable under this program would take many pages of this book and we must be content with a

few examples of the protection afforded "from the cradle to the grave."

All married women, regardless of income, are entitled to a maternity grant of $16 intended as a contribution toward the expenses of child-birth. In addition, those who are wage-earners will receive $7.20 weekly for thirteen weeks to enable them to give up their jobs for this period. Those not eligible for this benefit will be paid an attendant's allowance of $4 weekly for four weeks.

Weekly family allowances of $1.00 will be paid for each child after the first and, in addition, there will be provision for free milk and lunches for all school children. Both these forms of assistance will be payable, not from the insurance funds but out of taxes. They have been criticised as inadequate but, small as they are, they will do something toward lightening the heavy burdens of poverty which so often fall on the backs of the youngest. Moreover, they constitute recognition of national responsibility for the welfare of the next generation. "There is no finer investment for any community," Prime Minister Churchill declared in a broadcast address on March 21, 1943, "than putting milk into babies. Healthy citizens are the greatest asset any country can have."

Unemployment and sickness benefits are to be at the standard rate of $8 weekly for a married couple with $1 for the first child, who does not rank for family allowance. For single men and women the rate will be $4.80 per week. If sickness is prolonged beyond three years, permanent invalidity benefits at rather lower rates will be substituted. Unemployment benefit usually will continue for 30 weeks; after that unemployed persons can apply for "National Assistance" which is to be available to all on proof of need.

Employers have long been liable, as in most states in this

country, to pay compensation for injuries received by workmen in the course of their employment or for incapacitation owing to certain industrial diseases. This far from satisfactory system is to be replaced by a special scheme of industrial injury insurance linked with the general social insurance program. The plan proposed "recognizes a certain similarity between the position of the soldier wounded in battle and that of a man injured in the course of his productive work for the community. Neither is liable to have his pension reduced on account of what he may earn after the injury; each is compensated not for loss of earning capacity, but for whatever he has lost in health, strength and the power to enjoy life." * The benefits under this scheme vary so much according to circumstances that it is not possible to give examples. They are more generous than those paid in the case of sickness or unemployment but in most cases they will be considerably less than normal earnings. Retirement pensions, replacing old age pensions now only $2.50 per week, are to be at the rate of $7.00 for man and wife or $4.00 for a single person. The retiring age is placed at 65 for men and 60 for women; those who wish to continue working will not draw pensions but when they finally retire they will be entitled to additional weekly payments for each year they have continued in harness.

One haunting fear of the workers—the fear that they will not be buried decently—is removed by the inclusion of a death grant in the scheme of benefits. This is fixed at the rate of $24.00 for children under 3, $40 between the ages of 3 and 6, $60 between 6 and 18, and $80 for those over 18. These amounts cover adequately average undertakers' charges in Britain for a "respectable" funeral. There

* Official outline of the British government's social insurance proposals issued by the Ministry of Reconstruction.

will be no condition attached to the grant, however, with regard to the kind of burial provided: the heirs are free to make whatever arrangements they consider best. Hitherto this expense has normally been covered by what is known as "industrial insurance" with policies taken out for small amounts and premiums collected weekly. It is a system which has proved open to much abuse and it has been very costly, with expenses and profits of some of the leading insurance companies involved in the business running as high as 40 per cent of premium income. By including funeral insurance in the wide social insurance scheme, with a single weekly contribution covering all benefits, the cost of providing fully against this last, inevitable expense should be far less than it has been.

What will be the cost to individuals and to the National Exchequer of the whole plan? For employed adult men, the all-inclusive contribution will be 79 cents weekly, for adult women, 60 cents, while their employers will pay 60 and 50 cents respectively. Men working on their own account will pay 82 cents, women 70 cents, and for others of working age the rates of contribution will be 67 cents and 51 cents. Taking social insurance benefits alone (that is excluding health services, family allowances and national assistance) the charge on the taxpayer will be about one-third of the total at the outset, rising to one-half or more as the increasing proportion of old people adds to the total cost of retirement pensions. This means a payment from public funds when the scheme comes into effect of $1408 million annually compared with present expenditures for similar purposes of $1112 million.

The British war against want appears then as a large and expensive operation. Nevertheless its provisions are not over-generous, particularly from the American point of

view. Of course, wages in Britain are much lower than in this country; average weekly earnings for males in 1944 in the twelve chief industrial classifications ranged from $18 to $28. Benefit rates under the new scheme are based on a 1938 "minimum human needs" standard with 25 per cent added to cover the increased cost of living. Actually the cost of living has risen by at least 30 per cent since 1938 and threatens to go further in the early postwar years, making an upward revision of benefit rates essential. On the other hand, the actuarial basis of the scheme assumes an unemployment rate of 8½ per cent. However, as the last chapter pointed out, there is reason to hope that for some years unemployment will be a great deal less than this; with proper government planning it might remain less indefinitely. Hence there are good prospects of savings which could be utilized to make benefits more ample.

THE BATTLE AGAINST DISEASE

Comprehensive state insurance against sickness does not make much sense unless the state also assumes responsibility for preventing the spread of disease, for keeping people well as far as possible, and for seeing that those who fall ill receive the aid of scientific knowledge. Too often it is only in time of war that people realize the vital national interest in a healthy population. In the last war as in this, both in Britain and America, there was shocked outcry over the percentage of recruits that service doctors found it necessary to reject.

Public health measures in both countries have, over a long span of years, effectively cut mortality rates, wiped out or drastically reduced certain forms of disease, and improved general physical standards. But comparisons be-

tween the health of the most and the least favored sections of the population show how much remains to be done. In England and Wales, infantile mortality is twice as high among unskilled manual laborers as it is among the professional classes. In 1938 the maternal mortality rate in Oxford, a city with a very high proportion of professional people and relatively well-paid skilled mechanics in its population, was a third of that in the bitterly depressed coal-mining district of Merthyr Tydvil in South Wales. Can a nation anxious to check a threatened decline in its population afford such differences? Can a nation, which must stress increased production, tolerate the loss of output and efficiency that is caused by preventable illness? In 1936, it has been estimated, the value of work lost through sickness in Britain was $624 million (at 1945 prices). Compare this figure with the expected charge on public funds for the National Health Service which the British government has undertaken to create—$528 million, or an increase of $308 million on present expenditure for health.*

The existing National Health Insurance leaves many gaps. It provides general medical care and drugs only to those in the wage and lower-salaried groups. For a full half of the population, including the families of insured persons, medical service depends on ability to pay or attend a free clinic. Even for those covered by the scheme there is no provision for consultant services.

Plans for a comprehensive national health service have yet to be worked out in detail. A White Paper issued in 1944 put forward a number of proposals as a basis for public discussion in advance of any attempt to translate them into legislative form. Involving as it does very controversial

* These figures do not include estimates for Scotland.

questions about the future status of the medical profession, that discussion is proving stormy. Many doctors believe they will be more free to concentrate on their real jobs if they become salaried public servants and need no longer worry about bill-collecting; others, perhaps a majority, fear the loss of independence and the lack of the opportunity for the exceptional medical man to earn an exceptionally high income. The government's tentative proposals suggest a compromise but they declare: "No person must have reason to believe that he can obtain more skilled treatment by paying privately for it than he can within the public service." * If this ideal is achieved, private practice cannot very long survive.

While the question of methods remains to be settled, the broad objectives of the program are clear. It is to provide a "full range of health care." No one will be compelled to use the service, but for all who do "it must offer, as and when required, the care of a family doctor, the skill of a consultant, laboratory services, treatment in hospital, the advice and treatment available in specialized clinics . . . dental and ophthalmic treatment, drugs and surgical appliances, midwifery, home nursing, and all other services essential to health. Moreover, all these branches of medical care must be so planned and related to one another that everyone who uses the new service is assured of ready access to whichever of its branches he or she needs. The new health service in all its branches will be free to all, apart from possible charges where certain appliances are provided." **

The finest medical care is not, by itself, a guarantee of

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* *A National Health Service* (official abridged version of the government White Paper).

** *Ibid.*

good health. That depends on many other factors, among which an adequate and properly balanced diet is increasingly emphasized. It is a remarkable fact that, despite a reduction in total food supplies, despite the nervous strains caused by bombings, overwork and the blackout, general health standards have improved in Britain during the war. To a great extent this is the result of the better diet enjoyed by the large fraction of the population which had been habitually undernourished. With unemployment virtually abolished, and with practically all workers receiving steady incomes, there has been a leveling up in diet as well as a leveling down. Under the rationing system, which has insured an even distribution of supplies, many workers have been able to consume more of the protective foods than under prewar conditions.

Because of its nutritional importance milk production has been fostered and supplies increased by 25 per cent, while rationing has enabled priority to be given to those consumers who need it most—children, pregnant women, nursing mothers, and invalids. This may be one reason why the infant mortality rate has declined during the war. It helps to account for the fact, reported by the Glasgow Education Committee in 1943, that boys of 13 were both taller and heavier on the average than those of the same age in the five years immediately preceding the war.

Farm production in Britain has increased some 70 per cent during the war in accordance with plans which were guided, on the one hand, by the necessity for reducing imports of foods, and so saving shipping space, on the other, by nutritional considerations. The liaison between the Ministries of Food and Agriculture is likely to continue during the peace. Britain is determined not to let farming slide back into the depression which overtook it after the last

war. At the same time, it is recognized that imports must furnish the bulk of the food consumed within the country. A policy of protecting traditional crops from foreign competition would be ruinously expensive and would certainly defeat any hopes of a permanent improvement in diet. Thus the objective sought is to encourage the production of those foods consumption of which has hitherto been insufficient for the maintenance of health standards—fruit, eggs, dairy products, vegetables and meat.

THE BATTLE AGAINST SQUALOR

"Squalor," says Sir William Beveridge, "means the bad conditions of life for a large number of our people which have followed through the unplanned, disorderly growth of cities . . . through our continuing to build inadequate, ill-equipped homes that multiply needlessly the housewife's toil. The greatest opportunity open in this country for raising the general standard of living lies in better housing, for it is in their homes and the surroundings of their homes that the greatest disparities between different sections of the community persist today." *

There has been a housing problem in Britain for well over a hundred years, with demand constantly ahead of supply of new dwellings, but it received full public recognition only after the last war. Between 1919 and 1939, thanks to government subsidies, the low rate of interest in the thirties, and the slowing down of population growth the situation improved. Four million houses were built in those years, or about one-third of the total actually standing in 1939. Yet the problem was far from solved. Less than

* *Full Employment in a Free Society* (New York, Norton, 1945).

half the new houses had been built to sell or rent at prices within the means of 80 per cent of the population. That meant that most working-class families continued to occupy pre-1914 dwellings, many of which were officially slums—"unfit for human habitation"—while of the rest a large proportion were obsolete, dreary, and lacking all modern conveniences. Two-thirds of the families covered by a survey in the London district of Shoreditch in 1938 had no bathtubs; 22 per cent of them shared a toilet with three or more other families. This was all too typical of conditions in the older urban communities even after twenty years during which real progress had been made in slum clearance.

Obviously, the war has not improved the position. Five years of bombing, six years of untended dilapidation—labor and materials could be spared only for the most urgent repairs—together with an accelerated marriage rate have created a state of acute shortage. A Conservative Party estimate places the immediate need at 950,000 dwelling units; government spokesmen have declared that 1,500,000 houses are required to relieve over-crowding, and an additional 2,500,000 to replace slum-dwellings and those "grossly deficient in modern amenities."

Enemy action has not proved an unmixed curse from the housing point of view. Bombs fell alike on new houses and old slums, but since the raiders concentrated on the most densely populated areas, they wiped out more bad property than good. As a result there is a unique opportunity to replan whole districts which had been hopelessly congested. All around the London docks, for instance, a vast area blighted by early nineteenth century jerry-builders has been blitzed to rubble, in which wildflowers now grow for the first time since the industrial revolution overran the riverside meadows. Flowers and trees promise to be

part of the future of this and similar districts, for under the Town and Country Planning Act, passed in 1944, the municipal authorities will be enabled, with the aid of government grants, to plan the redevelopment of whole areas which have been devastated. Whatever private property it is necessary to acquire for this purpose is subject to compulsory purchase at 1939 values with some additional compensation to owner-occupiers. Similar powers are also available to assist the redevelopment of congested areas where slums have not been erased by bombing.

House building after the war will be dependent on a very considerable outlay of public funds, for private enterprise has never proved equal to providing decent accommodation for lower income families. The program will fall into three parts. First, emergency repairs to bombed houses which can be rendered inhabitable, and the provision of temporary dwellings to take care of those who are actually homeless; second, the ending of slums and over-crowding; third, replacement of houses which although not insanitary are obsolescent.

The long-term objective of the government's program is to make possible the erection of three to four million houses within ten or twelve years after the war. In order to accomplish this task, and to carry out all the other building required, it is proposed to train a large number of new workers and bring up the total labor force in the construction industry to 1,250,000 compared to 1,000,000 before the war. This program has been questioned, not on purely financial grounds, though the cost to the state will be large, but because it will channel into housing so large a proportion of Britain's available resources for investment. *The Economist*,* which has taken this line, suggests that the

* Feb. 3, 1945.

result will be an undue inflation of the building industry which, once the plan has been fulfilled, will be far too large for normal replacement construction. As an alternative it advocates concentration on wiping out the existing deficit, followed by an attack on the real slums; reconstruction of "the near slums" should be held back as an anti-depression measure. But while postwar conditions may make modifications of the scheme necessary, no government will dare to neglect housing. It is and will long continue to be a burning political issue. The British people are not going to be satisfied with mere shelter; beyond that they demand comfortable homes with modern conveniences and pleasant surroundings; they will not put up with the cast-off, antiquated houses of the more fortunate classes with which so many of them have had to be content for so long.

THE BATTLE AGAINST IGNORANCE

> "The future of the world is to the highly educated races who alone can handle the scientific apparatus necessary for pre-eminence in peace or survival in war. . . . You cannot conduct a modern community except with an adequate supply of persons upon whose education, whether humanitarian, technical or scientific, much time and money has been spent."—WINSTON CHURCHILL.*

It has taken two wars to drive home the lesson that Britain is dangerously under-educated. Between 1919 and 1939 big advances were made and the quality of British education, particularly at the high school level, was perhaps above average American standards. But only a minority were getting the benefit, for most children left school

* Broadcast address, March 21, 1943.

at 14. Beyond that age education was on a fee-paying basis though about half the total of high school students throughout the country won scholarships admitting them at free or reduced rates. This was a long way, however, from providing equality of opportunity.

The system involved examinations at the tender age of eleven which finally determined whether a child of poor parents should get a higher education or not. And even those who won through to scholarships could not always take advantage of them because their family situation demanded that they should become wage-earners as soon as it was legally possible. For the same reason, many others left high school before graduating, while the percentage who were able to go on to the universities was very small. The result was a shortage of well-trained intelligence which made itself felt in the war and which may prove a still greater handicap in the tests which British industry and government must face in the peace.

It is perhaps not surprising, therefore, that the first major piece of postwar legislation tackled by the British Parliament was an education Act. Passed in 1944 it raises the school-leaving age (now 14) to 15 by 1947 at the latest and, as soon as possible thereafter, to 16. High school education will be provided free to all up to university entrance standards, while assistance out of public funds for university students—now received by about 40 per cent of the total—will be increased. For those who will still leave school at 16 there will be compulsory part-time education in county colleges up to the age of 18, for which employers must allow time off.

In order to implement this program between 50,000 and 90,000 new teachers will be required in addition to normal annual replacements of 15,000. Larger salaries, improved

working conditions, including smaller classes, and higher professional standards have been promised with a view to attracting recruits. A large number of new and better-equipped schools will be needed, as well as many more training colleges. It will take some time, therefore, before the Act can be brought into full force. But eventually it will mean that the ladder of educational opportunity has become, at long last, fairly accessible to all.

THE BATTLE AGAINST IDLENESS

By attacking with determination the four giant evils of Want, Disease, Ignorance and Squalor, their confederate—"the fifth, giant of Idleness enforced by mass unemployment"—will, Sir William Beveridge suggests, be destroyed. This, perhaps, is an over-optimistic conclusion; the monster can come to life again if vigilance is relaxed. Nevertheless, the struggle against the other evils should help to keep him in check for a fairly long period. The social insurance plan, while it does not create employment directly, does serve to put a floor under any depression by affording a basic minimum of purchasing power. The battles against Disease, Squalor and Ignorance all involve large public investments. Pursued vigorously, they will do much to insure that total outlay on goods and services matches productive capacity.

As we have seen, mass unemployment should not prove very menacing in Britain for some years after the war, unless there is gross mismanagement or very unfavorable international developments. But the lessened danger is no reason for failing to take precautions. If only for the sake of public morale, it is important that the government should give unshakable evidence of its willingness and ability to

nip any threatened depression in the bud. The specter of idleness, which haunts British workers after their experience in the interwar period, must be laid. Opening a debate on employment policy on June 21, 1944, the Minister of Labor, Mr. Ernest Bevin, described a visit with Mr. Churchill to a port of embarkation just before D-day. He told the House of Commons how he had talked to men "going off to face this terrific battle with great hearts and great courage." They had, he said, only one question to put to him: "Ernie, when we have done this job for you, are we going back on the dole?" Mr. Bevin asked Parliament to back the reassuring answer he gave and added: "I am convinced that . . . any party which faced the people of this country at a General Election and refused to accept the principle of full employment would not be returned to this House."

The statement of government policy which occasioned this debate declared that, in order to banish cyclical instability from the economy, three essential conditions must be satisfied:

(a) Total expenditure on goods and services must be prevented from falling to a level where general unemployment appears.
(b) The level of prices and wages must be kept reasonably stable.
(c) There must be a sufficient mobility of workers between occupations and localities.*

We must confine ourselves here to the first of these conditions which holds the key to solution of the problem of full employment. The chief reason for wide swings in

* White Paper on Employment Policy, p. 15 (New York, Macmillan, 1944).

total expenditure, according to the view expressed in this statement, is fluctuation in private investment and, to offset this factor, the British government intend to use public investment as an instrument of employment policy.

The government believe that in the past the power of public expenditure, skilfully applied, to check the onset of a depression has been under-estimated. The whole notion of pressing forward quickly with public expenditure when incomes were falling and the outlook was dark has, naturally enough, encountered strong resistance from persons who are accustomed, with good reason, to conduct their private affairs according to the very opposite principle. Such resistance can, however, be overcome if public opinion is brought to the view that periods of trade recession provide an opportunity to improve the permanent equipment of society by the provision of better housing, public buildings, means of communication, power and water supplies, etc.*

With a view to checking the decline in purchasing power and consumption that follows inevitably when a fall in investment reduces employment and earnings of the capital goods industries, variation in the rates of contribution to the national insurance scheme is proposed. When unemployment falls below an estimated average level, rates will be raised above the standard; when it exceeds the average, they will be reduced below the standard. It is hoped that "the additional money thus left in the hands of many millions of people would help to maintain the demand for consumers' goods, thereby offsetting, at least in part, the decline in the expenditure of those who had lost their employment." ** The same principle, it is suggested, might be ap-

* White Paper on Employment Policy, p. 22 (New York, Macmillan, 1944).

** *Ibid.*, p. 23.

plied to taxation by raising more revenue in prosperous times than the Budget required and treating that excess "as a credit repayable to the taxpayers in bad times." *

In this country, the White Paper was regarded as a very radical document and the *Wall Street Journal* headed an editorial comment: "Asks Britons to be Slaves." In Britain, however, there is little criticism of the general principles it sets forth but exception is taken, even by moderates, to its unduly timid approach. It is, indeed, a cautious program insofar as it recommends positive methods of averting depressions. All the same it is likely to prove a landmark in British economic history, because it marks official acceptance of the principle of government planning to overcome the violent fluctuations in trade that appear to be inherent in an uncontrolled private enterprise system. More than that, the White Paper proclaims "the maintenance of a high and stable level of employment" as one of the government's "primary aims and responsibilities." No administration can formally bind its successors, but no future British government will be able to rid itself of this responsibility.

* *Ibid.*, p. 24.

Chapter 7

Export or Die!

Britain, scornfully dismissed by Napoleon as "a nation of shopkeepers," conducted its international merchandizing so successfully in the nineteenth century that it was able to build out of surplus earnings a large portfolio of foreign investments. To a considerable degree it turned into a nation of *rentiers* and shoppers, buying far more on world markets than it sold and meeting the balance from its foreign interest and dividends. But in the course of two wars these investments have largely been liquidated, and now Britain must revert to its shopkeeping role in order to maintain its position as an international shopper.

Britain's imports (less re-exports) in the three prewar years 1936–38 averaged £866,000,000. They were paid for as follows:

Exports	£478,000,000
Shipping services	105,000,000
Financial services	40,000,000
Income on foreign investments	203,000,000
Deficit	40,000,000
Total	£866,000,000

It will be seen that overseas sales of British goods covered little more than half the cost of imports: the remainder had to be provided by what are known as "invisible exports."

Overseas assets amounting to nearly £2,000,000,000 have been sold since the start of the present war, mainly for the purpose of paying for war materials.* As a consequence, it has been estimated that Britain's income from this source has shrunk by at least 50 per cent. A further reduction may occur as the result of technological changes brought about by the war—say, the permanent displacement of natural rubber, in which much British money has been invested, by synthetics.

In addition to liquidating investments, Britain has incurred heavy external debts. Apart from Lend-lease, it has borrowed from countries supplying it with goods and services, such as Argentina, India, Egypt, Portugal. Unable to make payment by exporting goods of its own manufacture —for which raw materials and manpower could not be spared—it has given these countries I.O.U.'s to the tune of £3,000,000,000. Before normal conditions return the total of these frozen sterling credits may approach £4,000,000,000.** Eventually this debt will have to be refunded and liquidated. Let us assume that, provisionally at least, interest and amortization are fixed at no more than 4 per cent per annum. This would mean an additional £160,000,000 annually on the debit side of Britain's international accounts.

On the credit side, as the table on the preceding page shows, income from shipping is an important item. But this too is expected to diminish after the war, though there may be a temporary rise during the "restocking" period when international movements of goods will be abnormal. Up to the end of 1943, Britain had lost through enemy action 2921 ocean-going vessels of 11,643,000 gross tons out of a prewar

* Speech by Sir John Anderson, Chancellor of the Exchequer. Reported New York *Times*, Apr. 25, 1945.

** *Ibid.*

merchant fleet totaling 17,500,000 gross tons. An intensified building program, plus purchases from abroad, ships lend-leased by the United States, and prizes captured from the enemy, have made possible the replacement of practically the whole of this loss in terms of sheer tonnage. However, quantity is not quality and large expenditures will be required to restore the British fleet to prewar efficiency. At the same time, the enormous growth of the American merchant navy suggests increased competition for freights in the postwar years and a probable decrease in Britain's share of the world's carrying trade.* It would seem reasonable, therefore, to estimate Britain's postwar net income from shipping at only two-thirds of the prewar figure.

Assuming the maintenance of prewar average imports and exports, we can now construct a tentative postwar international balance sheet for Britain.

Dr.		*Cr.*	
Imports	£866,000,000	Exports	£478,000,000
Payments to foreign creditors	160,000,000	Shipping services	70,000,000
		Financial services	40,000,000
		Income from foreign investments	100,000,000
			£688,000,000
		Deficit	338,000,000
	£1,026,000,000		£1,026,000,000

In the transitional period, Britain cannot hope to establish an immediate balance between payments in and payments out on its international account. Indeed, some expansion of imported raw materials and machinery will be an essential preliminary to revival and expansion of exports. For a time, then, it will be necessary for Britain to finance

* See Chapter 11.

continuing deficits by (a) using gold reserves or liquidating part of its remaining foreign assets, or (b) securing fresh credits either from the United States directly, or by way of the Bretton Woods institutions. But it is certain that such policies can be safely pursued only for a very limited period. Borrowing abroad for the creation of permanent income-producing assets is one thing; borrowing to pay for current consumption must tip the scales still more heavily against the debtor country and eventually lead to repudiation of the debt.

In the long run, Britain can import only as much as it can pay for by selling its own goods and services abroad. If it cannot increase the credit side of the trade equation, it must take steps to decrease the debit side. However, as noted in Chapter 5, imports cannot be cut to any considerable extent without reducing severely the British standard of living. This again would necessitate prolongation of wartime controls until the economy of the country had been reorganized on a more nearly self-sufficient basis.

In 1943, although imports of some raw materials were much higher than in prewar days owing to the demands of the munition industries, tonnage of "dry cargo" unloaded at British ports had fallen to roughly half of the 1934–38 average. This was made possible by the substitution of inferior domestic raw materials—iron ore for instance—for imports normally used, by an increase in home production of food from one-third of total supplies before the war to two-thirds, and by the endurance of very plain living. A reduction in imports of animal feeds to negligible quantities meant halving the pig population and a sharp decline in sheep and poultry. Imports of fruit and vegetables were brought down to an eighth of their prewar level, wood-pulp to less than a quarter, newsprint to about one-fifth.

If economies on this scale continued to be necessary after the war, the Englishman would have no grapefruit for his breakfast, an egg only two or three times a month, a slice of bacon not more than twice a week. Instead of his traditional marmalade which requires Spanish oranges, he would continue to eat jam made of domestic plums. His morning paper would remain restricted to four to six over-crowded sheets. It might be possible for him to use an automobile again to get to work, but to keep down imports of gasoline it would be necessary either to ration it or to tax its use exorbitantly. For dinner in the evening, servings of meat would be meager and through the winter the family would have to ring the changes on home-grown cabbage, cauliflower, and brussel sprouts. Fresh vegetables from the Mediterranean or canned ones from California would get a low priority in a program of restricted imports. Since cotton and most raw wool are imported, clothes rationing would have to continue and there would be no fashion goods from Paris.

It may be argued that, since with the end of the war the need for imported armaments and raw materials for munition making has ceased, it will be possible to replace them with goods for consumption. But from 1943 on war materials were to a large extent supplied through Lend-lease and therefore were not a burden on Britain's foreign exchange resources. Large food imports were financed in the same way or were received as "mutual aid" from Canada, while important quantities were bought from Argentina and other countries on credit. Lend-lease has ceased with the end of the war and Britain cannot continue to buy on the cuff even if other countries are willing to extend more credit. To restore imports to prewar levels, will, as the balance sheet shows, require exports 60 per cent

greater than before the war. This means a five-fold increase over the 1944 volume, which was only about 30 per cent of prewar.

Terrific as this task appears, it is the one way out for Britain. The pursuit of self-sufficiency would only intensify its plight. Under any circumstances it would need a basic minimum of imports and therefore of exports. But each step taken to exclude imports would reduce ability to export. For one thing, self-sufficiency would make for high costs. Britain, for instance, is not well adapted for wheat growing and any attempt to make the loaf all-British would require prohibitive tariffs or enormous subsidies. In either case it would be a very expensive loaf and its cost would necessarily be reflected in the prices of goods made for export. Again, drastic reduction of imports would react catastrophically on the economies of many other countries. Denmark before the war sent about 55 per cent of its total exports to Britain; its pigs were bred to furnish the lean bacon which Britons prefer, its eggs and butter were graded according to British specifications. Forty-five per cent of Finland's foreign sales were to the British market, 28 per cent of Norway's, 24 per cent of Sweden's. Other countries dependent on Britain to absorb a large share of their exportable surpluses included Holland, Spain, Portugal, Argentina and Uruguay.*

If this profitable market broke down, the results for all these countries would be extremely painful. Their own ability to buy foreign goods would be curtailed and they would become much poorer customers for Britain and other countries. Moreover, it appears probable that, if Britain were forced to limit imports, it would give increased prefer-

* Seventeen per cent of United States exports went to Britain in 1938.

ence to the Empire thus still further reducing sales possibilities for foreign countries. The following table shows the extent to which the Dominions depend on the mother country and how that dependency was increased by the establishment of Imperial Preference at the Ottawa Conference in 1932.

EXPORTS TO UNITED KINGDOM AS PER CENT OF TOTAL EXPORTS

	1930	*1938*
Canada	26.7	40.6
Australia	44.9	51.2
New Zealand	82.1	83.8
South Africa	47.9	40.7
Eire	92.1	92.6
India	23.4	33.7

A larger share of a much smaller total would not, however, save the Dominions from depression. As the British market shrank, so would the bank accounts of Canadian wheat growers, Australian and South African sheep herders, New Zealand dairymen, Irish stock raisers, Indian tea planters. They in turn would be unable to buy imported goods and a further decline in British exports would follow. Because Britain imported more than any other country, its market was a major pillar of world economy. That pillar is now weakened; if it collapses, the structure will not merely have to be rebuilt, it will have to be remodeled.

Restriction of imports may be a necessary treatment for Britain's wounded trade in the transitional period—a tourniquet serving to prevent the patient from being bled white of foreign exchange. But tourniquets, applied for too long and kept too tight, stop circulation altogether. To effect a permanent cure the tissues of external purchasing power must be built up by the sale of goods and services abroad. Success will depend on three factors: (1) The general state

of world trade; (2) the willingness of other countries to admit foreign goods freely; (3) the relative efficiency of British production, which will be discussed in the following chapter.

The first two of these factors are as closely connected as the chicken and the egg and the problem is to find which is cause and which effect. There can be little hope of hatching a policy of universal reduction of trade barriers unless steps are taken to maintain general economic activity at a higher and more stable level. The Fordney-McCumber tariff law was the outcome of the 1920 postwar collapse; the Hawley-Smoot Act followed the great depression of 1929. But the clutter of obstacles athwart international trade routes are equally discouraging to the organization of an expanding world economy.

There is one unofficial but influential school of thought in Britain which contends that any effort to restore world trade on traditional lines, with free convertibility of currencies at more or less stable rates—the kind of system the Bretton Woods Agreement is designed to re-establish—is foredoomed to failure. The United States, the argument runs, is so wedded to unrestricted private enterprise that it will fail to plan for full employment and, as a consequence, will suffer new economic upheavals. No country that does seek to stabilize its internal economy can, therefore, afford to link itself with a trade and exchange system which will act as a swift carrier of the germs of American instability.

Britain is committed to government intervention to check trade slumps by measures stimulating consumption. Now suppose that America once again follows a postwar boom with a nose-dive into depression. Manufacturers here will push their foreign sales all the harder to make up for lost

domestic customers but at the same time imports from foreign countries will diminish. Britain will be doubly affected: its exporters will experience fiercer competition while its customers, not only in the United States but in other countries supplying the United States, will have their purchasing power reduced. Meanwhile Britain's domestic program will sustain internal consumption and, therefore, the volume of imports, which must be paid for in foreign currencies. But the decline in exports will reduce the supply of such currencies, forcing Britain either to use its gold reserves to make up the balance, or to take measures to check consumption. In other words, under a free exchange system, depression in America will compel Britain either to abandon that system or to throw over its full employment policy by deflating its economy.

Most British economists, and a good many American ones, agree with this analysis but there is much difference of opinion about remedies. The school already mentioned believes that the only safe course for Britain is to insulate its economy as far as possible in order to shield it from the manic-depressive tendencies of rugged individualism. To accomplish this end, the argument runs, Britain should abandon multilateral trade (the system under which country A buys from country B, B from C, and C from A, and no attempt is made to match imports and exports directly) and resort to bilateral trade—a euphemism for barter. By this means Britain could exploit the fact that its market is almost indispensable to many other countries. It could say to Denmark, for instance: We are willing to buy from you a large part of the bacon and eggs you produce, for our internal policies make possible hearty breakfasts for everyone. But you in turn must help to maintain our economy by buying

from us equivalent amounts of cloth, machinery and automobiles.

Repeat this process with as many as possible of the countries with which Britain had a large import balance before the war and, in theory, the export problem would be solved. As one of the advocates of such a policy writes:

> Being the world's largest single market for raw materials and foodstuffs, she (Britain) possesses an unbreakable bargaining power. If she employs that power not for purposes of buying cheaply and selling dearly, but so as to increase the volume of both her sales and purchases, she can be certain of success. Where other nations might attempt to sell on credit, thus burdening their customers with debt, she would be selling goods for goods.*

A trading system of this kind need not be strictly bilateral. Expansion of the "Sterling Area," officially organized in 1940 as a means of conserving exchange resources, could give it a multilateral form. Countries inside the area could trade freely with one another in terms of sterling. If Denmark's trade with Britain resulted in a credit balance, that credit could be drawn upon to supply the Danes with South African fruit. This would put sterling at the disposal of South Africa, which could use it to buy Manchester goods or commodities from some fourth member of "the club." Dealings with outsiders would be conducted by means of an exchange pool. Suppose Egypt, inside the sterling area, sold long-staple cotton to the United States. The dollars it would receive would be deposited in a fund the managers of which would be charged with seeing that

* "Export Policy and Full Employment," by E. F. Schumacher (London, Fabian Research Series, 1943).

payments of external currencies from within the area were kept in balance with receipts.

A system of this sort would be, of course, the very opposite to that contemplated in the Atlantic Charter or in the Bretton Woods Agreement. It would mean the perpetuation of exchange controls and import and export licenses. Tariffs would become unimportant; their place would be taken by quotas, much more formidable obstacles to the free flow of international trade. All the apparatus elaborated by Dr. Schacht before the war—blocked accounts, multiple exchange rates and the rest would have to be refurbished. Obviously, there would be strong political reactions if any such plan were attempted. Nationalist forces in this country would be immensely strengthened. Almost inevitably a rival American club would be organized with the United States using its credit facilities as a bargaining weapon. The kind of economic warfare that would follow would have catastrophic results for countries whose prosperity was dependent on foreign trade and who had no good means of bargaining. Consider the plight, for instance, of a South American state which needed both the British market and United States loans to develop its resources. If it joined the dollar club, its exports would be insufficient to finance the credits it required; if it went over to sterling, it would be compelled to accept whatever imports the British sent it at prices which might compare very unfavorably with American prices. Its choice, in short, would be between becoming an economic colony of Britain or an economic colony of the United States.

Britain's political leaders realizing to the full the appalling consequences of a new outbreak of economic warfare, have given little encouragement to the proponents of bilateralism. But, it must be acknowledged, British com-

mercial policy had drifted in that direction prior to 1939. In 1932, shortly after the United States tariff reached its zenith in the Hawley-Smoot Act, Britain turned its back on free trade. After 1931, when sterling was forced off the gold standard, the necessity for safeguarding foreign exchange reserves powerfully reinforced the argument that industry could not provide jobs for millions of unemployed unless it was given protection against cheap foreign goods. The upshot was not merely the enactment of an extensive tariff schedule but the adoption, in the case of some imports, of quantitative limitation by means of a quota system.

The next step was taken at the Ottawa Conference in 1932 when the already existing system of Imperial Preference was greatly extended by a mutual agreement between the different members of the Empire to grant lower rates of duty on each others' goods than were charged against those of foreign origin. The benefits to Britain's wilting export trade were not obvious. Imports from the Empire increased in absolute value between 1928 and 1938 by 15.7 per cent while British exports to the Empire declined by 28.4 per cent. Moreover, in outside markets competition grew stronger partly, perhaps, because the Empire Preference system encouraged American exporters to concentrate their efforts on other countries.

In the thirties, Britain's unbalanced trade position was forcing it to resort to "disinvestment" on a small scale, i.e., it was drawing on foreign capital assets to finance current consumption of foreign goods and services. A remedy for this situation was sought in bilateral agreements with a number of countries heavily dependent on the British market, among them Denmark, Argentine, Sweden, Norway and Finland. In return for promises that tariff rates would not be raised on particular commodities or quotas

reduced, considerable concessions were obtained for British coal and manufactured goods. But no attempt was made to attain an exact balance nor were restrictions placed on the use these countries made of their surplus sterling. Britain was still a long way behind Dr. Schacht in its use of economic strong-arm methods. The results were rather inconclusive: Danish imports from Britain rose from £10,000,000 in 1932 to £16,000,000 in 1938 while exports to Britain declined from £40,000,000 to £38,000,000. Argentine also retained a large, though somewhat reduced, "favorable" balance in its trade with Britain.

While Britain was thus building trade barriers, the United States, inspired by Mr. Hull, had started its campaign to reduce them. Opposition at home and abroad, stimulated by world-wide depression, increased the difficulties of the task but the Anglo-American Trade Agreement signed in 1938 checked the trend toward restriction. Both countries lowered duties on a considerable number of items and in the case of others either guaranteed no increase in tariff rates or continued free entry. Under the "most favored nation clause" these concessions applied to all other nations with which America and Britain had trade treaties. The war broke out before the effectiveness of this agreement in promoting trade expansion could be tested, but it remains important as a signpost pointing the way to freer trade.

Britain is committed to move in that direction as Sir John Anderson, then Chancellor of the Exchequer, told critics of the Bretton Woods Agreement in a speech on October 4, 1944. He rejected the notion that the agreement meant putting British policy "under the dictatorship of others," and pointed out that it specifically recognized British difficulties during the transitional period and sanctioned the continuation of exchange and other controls until normal

conditions returned. Dismissing the program of the bilateralists for insulating Britain, he declared: "Under the Mutual Aid Agreement . . . we agreed to work for the elimination of all forms of discrimination in international commerce. We are bound by the agreement and we are going to honor it."

From an economic, no less than from a political point of view, any attempt to create a market by pressure tactics, to trade on the weaknesses of the primary producing countries, would have disastrous consequences for Britain in the not very long run. Barter is a primitive form of trade even when dressed up in modern clothes and it inevitably tends to reduce the total volume of goods exchanged. As one British publication has put it: "No country is dependent on our exports. In the short run we can use our bargaining power as a large-scale buyer in order to induce our suppliers to take more of our exports; but in the long run, to rely solely on this would be disastrous. Rather than have out-of-date and expensive British exports foisted on them, our suppliers would tend to adapt their economies so as to be less dependent on Britain as an export market, with the result that our bargaining power would be reduced." * Bilateralism stimulates self-sufficiency and Britain which has no hope of attaining self-sufficiency ought to be the last country in the world to encourage economic isolationism.

An even more urgent reason for rejecting the bilateral theory is the demoralizing effect its adoption would have on British business. It would be like prescribing an opiate for a patient who needs a shot of adrenaline. British industry is already suffering from shortage of competition. By

* *Planning*, No. 229 (Jan. 5, 1945).

means of an elaborate web of trade associations it has built up a restrictive system which stifles technical progress. If a protected foreign market were to be added to a protected home market, there would be little hope of persuading business to undertake the vigorous course of physical rehabilitation without which Britain cannot solve either its domestic or its foreign problems.

CHAPTER 8

*Monopoly and Efficiency**

ONE wet afternoon in November, 1944, I traveled through the grimy English industrial district which Arnold Bennett made famous as "The Five Towns" to visit a relic of the industrial revolution—the Wedgwood potteries at Etruria. At first sight it was difficult to connect this clutter of decayed buildings with the exquisite china on display at leading stores throughout the United States. Parts of the plant date back to the founder, the first Josiah Wedgwood, and are therefore older than the Declaration of Independence. Some of the crude machinery for grinding flints and mixing clays appears almost equally historic and, I was told, until a comparatively few years ago power was supplied by one of the original Boulton and Watt engines. The haphazard layout of the factory suggested a maximum

* This chapter, written before the advent of the Labor Government in Britain, has been left unchanged because it helps to explain why that government is now in power with a broad mandate to reorganize industry on socialist lines. It shows how private enterprise in Britain has to a large extent ceased to be enterprising and how widely old ideals of competitive efficiency have been discarded in favor of monopoly. Dubious about the practicality of enforced competition, the voters chose the alternative of public ownership of key industries combined with government control of others. Now the early nationalization of the coal mines has been promised by the new administration and thus the desperate efforts of the coal operators, described below, to find salvation in combination can be relegated to the history books.

of inconvenience and inefficiency; the sprawl of unconnected little buildings must have entailed an enormous amount of unnecessary handling of material as it passed through the different processes of manufacture.

It is possible to use the past tense because since 1940 this picturesque but outmoded warren has ceased to be the home of Wedgwood, although owing to wartime exigencies a few of its shops and kilns are still being utilized. But the main operations of the firm are now being carried on in a fine modern plant which occupies one corner of a beautiful country estate well away from the smoky atmosphere of "The Five Towns." Half a mile distant, on higher land, a garden village for employees is being constructed. Around and beyond are many acres of meadow and woodland to provide space for recreation.

The factory itself has been designed to secure a production flow from one end adjoining railroad and canal, where the raw materials are delivered, to the packing department at the other. Fine pottery making is still a handicraft to a very considerable extent; it derives its distinction from the deft fingers of the throwers, turners, mold-makers, decorators and other artists. But labor-saving machinery has been introduced wherever it has been possible to do so without destroying the individual touch. The most important innovation in the plant is the long, electrically fired, tunnel-oven—the only one in Britain—through which trollies laden with "uncooked" pots move automatically. This offers tremendous advantages over the old-time kilns which had to be carefully stacked by hand, fired by hand, and then emptied again by hand after long hours wasted in cooling. The tunnel-oven saves both time and labor, makes possible much more exact heat control, and greatly reduces breakages.

The first Josiah Wedgwood revolutionized the pottery industry and his namesake and direct descendant, who is the present managing director of the firm, is again pioneering. The example he has set is badly needed, for the old Etruria works is far more typical of English pottery manufacture than the new plant at Barlaston. Indeed, it is symbolic of a considerable fraction of British industry in which technique has been smothered by history. There are far too many establishments which not only are filled with obsolete machinery but, having grown by accretion, are spread around with little regard for coordinated production. This is one of the results of the disinclination to scrap ruthlessly and build anew which is a major psychological obstacle to the resurrection of British industry. I was told of one leading potter who thought it better to carry on with his antiquated plant, which long ago had been written down to zero in his books, rather than to incur capital charges for modern equipment, even though that would vastly reduce his operating costs. Such unwillingness to take risks has been fostered, and indeed made possible, by the growth of devices to curb competition. British business, particularly in its older branches, has been all too ready to sacrifice efficiency to security.

If Britain is to succeed in expanding its exports and to build the basis for a higher standard of living, this attitude must change. For without more efficient production, more PMH —production per man-hour—there can be no real security for either employer or employed, or, in fact, an assured future for the nation as a whole. With the outbreak of peace, the question of reorganizing industry on more productive lines is being debated with increasing vigor. Journals like the *Economist* hammer at it week after week and there are signs that their constructive nagging is beginning to make

an impression. Official investigations into some obviously debilitated industries have brought out facts calculated to shock the most complacent. Yet the hankering after guaranteed markets and safe profits, irrespective of efficiency, is a feature of a good many postwar plans which bow to the ideal of technical progress but seek it in the deceptively green pastures of monopoly.

The invention of cotton spinning and weaving machinery, and the application to the textile industry of the principle of the division of labor, was the outstanding achievement of Britain's industrial revolution at the end of the eighteenth century. For a long period Lancashire practically clothed the world, and exports of cotton yarns and manufactures had pride of place in Britain's annual trade returns. In 1913, despite growing competition, this item amounted to $630 million; in 1938 it was only $245 million and had been displaced by machinery as Britain's leading export.

Textile manufacturers are inclined to blame "cheap foreign labor" and high foreign tariffs for their plight, and it is true that the market has been diminished by the protected growth of cotton industries in many countries. But it is also true that Lancashire has allowed its competitors to gain a technical advantage over it. Textile wages in the United States, though comparatively low, are much higher than in England; so is output per worker. A representative Lancashire mission sent across the Atlantic in 1944 reported that average American production per man-hour in representative processes was from 1¼ to 10 times more than in Britain. The main reason for the difference, it declared, was more modern machinery: in America, 95 per cent of the looms used are automatic, in Britain, only 5 per cent. The mission's report also noted the lower average age of the

American textile worker—poor pay and a high rate of unemployment have made the industry unattractive to young people in Lancashire—and the fact that "American mill-managers, generally, are young and analytical and progressive in their outlook." The last statement, the *New York Times* reported, "caused a furore among the executives in a community where long years of service constitute a major qualification for an executive position."

The mission was also extremely critical of British distribution methods. The merchant firms from whom the mills take orders are vastly more numerous than those in America and the result is a large number of very small orders and a wide range of specifications. This factor alone, according to some Lancashire cotton men, makes the general use of the automatic loom impossible for it is only economical when it can be employed for long, continuous "runs." To duplicate American production methods, they argue, it will also be necessary to duplicate American standardization and that means changing the individualistic tastes of British customers. No observer of the American scene, however, can agree that standardization has led to any lack of variety in clothing. The explanation may be that competition in Lancashire has taken the form of encouraging minor variations in weaves and patterns to a greater extent than ultimate consumers really demand. Another point is that many mills have been in no condition to finance bulk orders.

The industry's technical and financial troubles are, in fact, closely interwoven. After the last war the brief boom led to unbridled speculation in mill property and many firms were recapitalized on a grossly inflated basis. Under the free market conditions of the textbooks this situation would have been cured by a strong purge administered in

the bankruptcy courts. But seeking to avoid the pains of catharsis, Lancashire attempted to check competition by agreement. Its ability to do so was limited by the fact that it catered mainly to a world market. By arranging for all the mills to work the same amount of "short time" an effort was made to balance production and demand. The result was that the costs of all mills increased and the efficient units supported the inefficient. Although many of them were teetering on the edge of liquidation, the financially weakest mills showed an astonishing ability to survive and to cut prices. But they could only do so by failing to provide for depreciation so that technically the condition of the industry continued to deteriorate.

Lancashire's solution, however, is still a restrictive one. In 1944 it put forward a scheme for control of the cotton industry by a self-governing board endowed by law to fix prices and with jurisdiction over rayon, a growing and progressive industry. This plan was decisively turned down by Mr. Hugh Dalton, then President of the Board of Trade. "There are," he pointed out, "grave dangers in such minimum price arrangements, which may easily lead to restriction rather than expansion of output, and to the perpetuation of inefficient and old-fashioned methods at the expense of more efficient and up-to-date firms."

Recent British history furnishes plenty of proof that price-protection policies do not necessarily encourage reorganization or modernization. Take the case of coal which, besides being Britain's only important natural resource and the basis of its industrial life, is also a leading export. For a generation the coal industry has been the problem child of the British Parliament; it has been the subject of two major investigations since the last war and much legislation has been passed for its benefit. In 1930 the industry was

given power to regulate production and prices with the idea that its financial conditions would be sufficiently improved to provide a basis for reorganization. The results were a rise in prices, a loss of export markets to Germany and Poland, and very little progress in reorganization.

Many of the mines are too small to be worked economically; many are crowded too close together but have never been able to agree on a merging of operations. Machinery is used to a much smaller extent than in most other major coal-producing countries and this is only partly due to unfavorable geological conditions. Another serious impediment is the bad layout of many mines which hinders both coal-getting and haulage. Output per man-shift rose only about 15 per cent in the period between the wars. In Holland and the Ruhr it increased about 100 per cent and 50 per cent respectively.

Discussing the reasons for the technological lag in Britain a Committee of mining engineers, headed by C. C. Reid, Director of Production, Ministry of Fuel and Power, declared that: "The employers, as a body, have been prepared neither to accept the principle of the survival of the fittest, nor fully to abandon their traditional individualism. In relation to their own undertakings the short view has too often prevailed." Believing that vitally needed technical changes could not be "carried through by the Industry organized as it is today," the Committee recommended the establishment of a statutory authority with effective powers to merge it "into units of such sizes as would provide the maximum advantages of planned production." *

It was not the duty of this committee to consider the question of ownership of the mines; it proceeded on the

* Command Paper 6610. London, 1945.

assumption that they would remain in private hands. But in the view of many Britons, by no means all socialists, the Reid report strengthens the case for nationalization. For it makes clear that the initiative for reorganization must come from the state, and it provides no evidence that the industry is willing or able to meet the heavy capital costs which will be involved. But can the government, on behalf of the taxpayer, assume the risks of modernizing the coal industry without also assuming full responsibility for seeing that the task is properly carried out?

Another urgent reason for nationalization is the fact that no solution short of it is likely to satisfy the mine-workers. The Reid Committee remarked with trite understatement that efficiency has been hindered by "a lack of cooperation between the mine-workers and employers." Without a change in that situation there can be little hope of fruitful reorganization. Opposition of the miners to the introduction of machinery has to be overcome; so does their antagonism to the two-shift system without which the overhead costs of mechanization would be too heavy to carry. Such steps are essential to achieve an increase in output per man-shift of a magnitude that will permit both the maintenance of wages and the reduction of costs. For costs, and prices, must be reduced if the British consumer is not to be hopelessly overburdened, and export markets for coal destroyed. During the war costs rose to such an extent that in the summer of 1945 American coal could be shipped across the Atlantic and profitably sold in competition with British coal.

But no one who knows the temper of the British miners can hope for cooperation between management and men under the present ownership system. Long memories of past exploitation, of bitter fights for tolerable living conditions

and union recognition, are not to be eradicated by the fair words that employers now offer. If the mines are left in private hands after the war, the miners fear a repetition of the events that followed the last war. Then, too, all sorts of promises were given, but when the pinch came the only nostrum for the ills of the industry that the mine owners offered was lower wages. "The coalfields," Will Lawther, President of the Durham Miners' Association, has written, "are seething with unrest. . . . Now a point has been reached when the miners are determined that an end shall be made for all time to the root cause of their troubles, viz., the private ownership of the mining industry." *

In June, 1942, the British Government announced its decision "to assume full control over operation of the mines and to organize the industry on the basis of National Service . . . pending final decision by Parliament on the future of the industry." This step appeared like the writing on the wall to the mine owners and they realized the urgent necessity of a final effort to put their house in order. Their top organization, the Mining Association, selected as paid chairman, Robert Foot, a public utility executive of repute, and asked him to survey the mining industry and prepare a program for its revival. Mr. Foot's report, published early in 1945, is a somewhat evangelistic document which seeks to persuade the miners and the public that the mines can be left in private hands and still be operated in the spirit of "National Service." After outlining a charter of mostly unexceptionable principles, including undertakings to safeguard the interests of workers, consumers and investors, he proposes the creation of a Central Coal Board to act as "trustees for the public" in the observance and maintenance

* Preface to "British Coal," by Margot Heinemann (London, 1944).

of these principles. But neither the public nor the miners are to have any voice in the election or decisions of this body; it is to be composed solely of representatives of the owners.

Mr. Foot recommends that this Board should survey the whole industry, deciding which pits justify reconstruction and which should be closed. It should be endowed with power to coordinate selling arrangements, already sanctioned by the 1930 Act, which eliminate competition on the basis of price and to prevent inter-colliery and inter-district competition. The Board, it is suggested, should be competent to finance any colliery undertaking and for this purpose should be able to raise loans itself and to guarantee loans provided by other means. And, since an organization which incurs debts must have dependable revenues, the Board must be able to levy on all concerns signing its covenant. Naturally with non-competitive prices, all such levies will be passed onto the consumer, and if this is the way in which reconstruction is to be financed (Mr. Foot does not make the point quite clear) they will be a heavy charge.

It is more than doubtful that Parliament would grant a private body such powers, which, in effect, include the power to tax; certainly it would not do so without imposing stringent conditions and a large measure of public control. Very ingeniously, however, Mr. Foot seeks to avoid the necessity for Parliamentary sanction while providing the proposed Board with full authority to enforce its decisions. To this end he recommends that every colliery employing more than thirty men should sign a covenant committing itself, its assignees and successors "irrevocably to accept as binding every decision made by the Board in accordance with its constitution." This is the "union shop"

applied to an employers' organization with resignation prohibited and suits for breach of contract as a weapon against transgressors.*

It is perhaps some measure of the alarm about their future felt by the rugged individualists of the British coal industry that firms controlling 95 per cent of total output have indicated their willingness to support this program. The Mining Association is reported to be taking steps to make it effective but it seems extremely improbable that it will ever get beyond the paper stage. The miners have condemned the plan *in toto;* to them it looks like a scheme to dress the same old wolf in a new sheep skin. Nor is the general public likely to accept the principle that the coal problem can and should be settled by the industry, as Mr. Foot says, "within its own four walls." Commenting on the proposal Sir Stafford Cripps, one of the most influential leaders of the Labor Party, pointed out that reconstruction of the mines on an efficient basis "is not merely a matter for the coal-owners nor even for the joint decision of the owners and mine-workers. It is something which vitally affects our whole economy."

High coal prices add to the costs of practically all other industries, directly insofar as they depend on it for power, indirectly to the extent it enters into raw material costs. No industry is more seriously affected than steel and none in turn influences the costs of so wide a range of products.

* In an attempt to placate some of his many critics, Mr. Foot has proposed certain amendments to his plan. While leaving the Central Board solely representative of the mine owners, he suggests a right of appeal from its decisions to an independent Arbitral Tribunal, set up by Parliament, which would deal with complaints from operators, consumers and mine workers. This would provide a partial safeguard against exploitation, but the amended scheme leaves its monopolistic core untouched.

Owing to the use of lower average grade ore, British steel mills consume some two tons of coal for every ton of steel manufactured, while in America only about one and one-half tons are required. This is one reason why British steel prices in 1944 were estimated to be about 25 per cent higher than American. Exact comparisons are difficult owing to different methods of quotation but the margin is wide enough to suggest a great competitive advantage for American producers in export markets. Even more serious portents for the British industry are the low prices quoted by the very efficient Australian mills. British structural steel, for instance, costs nearly 40 per cent more than the Australian product.*

The price of coal is not the only factor responsible for such differences. At least an equal share of blame must be accorded to the high proportion of obsolete equipment in the British industry making for low PMH. This is often attributed to the long period of cutthroat competition following the last war, which discouraged any new investment. And it is true that the industry, after very rapid expansion between 1914 and 1918 was badly handicapped in world markets by the unrealistically high exchange value given to sterling when Britain returned to the gold standard. But instead of seeking new ways of cutting costs and looking for new products to encourage sales, a large part of the industry waited, Micawber-like, for something to turn up. Eventually something did—a tariff in 1933 which reduced competition from the continental producers and raised prices sufficiently to restore the business to a profitable basis. More than that, the steel industry at the same time became cartelized with the blessing of the banks and, in-

* *The Times*, Feb. 24, 1945.

deed, of the government of the day. In increasing tariff rates, the Import Duties Advisory Committee actually made protection conditional, not on the assurance of more competition, but on a promise of tighter organization.

The apparent intention was to stimulate increased investment. To some extent this was achieved in the seven years prior to 1939 but the firms that succeeded in lowering production costs were discouraged from passing on the benefits to consumers. Certainly, the engineering industries felt that they were being asked to pay monopoly prices which made it hard for them to sell in foreign markets. G. W. Lucas, President of the British Motor Agents Association, has been reported as stating that 65 per cent of the production costs of British motor vehicles went in raw and fabricated material costs and that two-thirds of that percentage was controlled by "rings, combines, and cartels." "Why," he asked, "is the production cost of a British motor vehicle 15 pence per pound weight as opposed to an American production cost of 9 pence per pound weight when wages in America are twice the hourly rate of those in this country?" *

An article in *The Economist* of October 14, 1944, viewed with alarm the probability that after the war British industry would be in the position of converting dear raw materials at production costs higher than in other countries. It quoted an automobile firm with American connections as authority for the statement that in 1939 "auto-body extra deep drawing cold rolled sheets" were priced in Detroit at $68.32 per long ton while the British price was the equivalent of $103.06. In 1944 this margin of $34.64 had widened to $43.08 despite the fact that the value of the pound had

* *The Times*, Oct. 2, 1944.

meanwhile been reduced. The same article provided a comparison between British and American prices for basic chemicals showing that the former, with relatively few exceptions, were far higher. Concentration of the greater part of the British chemical industry in the hands of one huge corporation helps to explain the difference.

Concluding its survey, *The Economist* declared:

> If British industry is to have a solid base for expansion and prosperity after the war, it cannot afford the luxury of dear raw materials. Yet the heritage of the nineteenth century is well on the way to being lost through the almost light-hearted, step-by-step departure from the established policy of buying materials in the cheapest market. There is a case for immediate and thorough-going investigation. Coal, steel and chemicals deserve a high degree of priority, but there should be no limitations imposed. These are not academic points; they are matters of economic life and death.

People in Britain might be more impressed by the dangers of monopoly if their industrial history over the past twenty-five years had not produced so many examples of the relative ineffectiveness of competition. It has obviously not succeeded in weeding out inefficient producers but has served rather to paralyze the fit and unfit alike. When under-production and unemployment become chronic, there may be competition in misery but there is little opportunity for competition in progress. So long as industry remains in private hands there must be profits to stimulate investment in improved methods of producing goods. That does not mean, as so many private planners appear to believe, that the state should guarantee earnings for any particular industry or concern. It does mean, however, that the state must provide an economic environment favorable to profitable operations by undertakings which produce efficiently the

goods people want. This it can best do by influencing the distribution of incomes to insure a steady flow of purchasing power. For it is when that flow becomes obstructed that the waters of production back up at their source and drown out the producers.

As we saw in Chapter 6, Britain is committed by all its political parties to a policy which will maintain employment by maintaining purchasing power. The goal is an expanding economy, but there can be no expansion if restrictionist policies on the part of either capital or labor force industry into a straitjacket, or create a rigid industrial system. There must be both stability in the general price level and flexibility in the range of production. Government measures to increase total national expenditure cannot succeed in their purpose if attempts are made to pump new life into industries in a natural decline, or to hamper the growth of those which cater to an expanding market. It would, for example, be dangerous to obstruct the development of air traffic in the interests of older forms of transport.

Full employment plans would also be thwarted if additional purchasing power were to be absorbed by increases in monopolistically controlled prices. As the British White Paper on Employment Policy declares:

> Action taken by the Government to maintain expenditure will be fruitless unless wages and prices are kept reasonably stable. . . . This does not mean that every wage rate must be fixed at a particular level. . . . The principle of stability does mean, however, that increases in the general level of wage rates must be related to increased productivity due to increased efficiency and effort.
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> An undue increase in prices due to causes other than increased wages might similarly frustrate action taken by the Government to maintain employment. If, for example, the manufacturers in a particular industry were in a ring for the

purpose of raising prices, additional money made available by government action for the purpose of maintaining employment might simply be absorbed in increased profit margins and no increase in employment would result.

There has in recent years been a growing tendency towards combines and towards agreements, both national and international, by which manufacturers have sought to control prices and output, to divide markets and to fix conditions of sale. Such agreements or combines do not necessarily operate against the public interest; but the power to do so is there. The government will therefore seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines; and to take appropriate action to check practices which may bring advantages to sectional producing interests but work to the detriment of the country as a whole.

A year has passed since this implied pledge to investigate and discipline the practitioners of restrictionism was given but there has been no sign of any move to implement it. When I was in London in the fall of 1944, I was authoritatively informed that a bill would shortly be introduced into Parliament to deal with the question. In its issue of January 13, 1945, *The Economist*, however, reported that the Board of Trade had failed to obtain Cabinet consent to a very modest anti-monopoly measure which it had drafted. The opposition of a coalition of big business interests with the trade unions had proved, it was said, to be too strong.*

* The policy of the Labor Government in regard to combines and cartels, outside the industries it proposes to nationalize, has yet to be developed. Theoretically Labor is opposed to all private monopolies and some of the party's leaders, notably Herbert Morrison, now Lord President of the Council, have urged strong action to abolish restrictive practices. The trade unions, however, have given support to plans for the self-regulation of certain industries by autonomous boards representing equally employers and employee. If such organizations were empowered, as has been suggested, to control prices, production, and even entry into the industry concerned, they might help to safeguard profits and jobs but they would certainly tend to check development and protect ineffi-

Meanwhile, the perversion of planning for private ends goes on apace. Schemes such as those concocted by Mr. Foot for the coal industry combine the disadvantages of both capitalism and socialism. They may, by collective action, achieve more economical production but, with the free market policeman retired from duty, there is nothing to prevent them from holding up the public to ransom. In this situation, government intervention becomes imperative; the alternative is abdication of the state in favor of autonomous industrial baronies.

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ciency. Such schemes, therefore, are not compatible with the Labor Government's program, which is essentially expansionist. Seeking to drive public and private enterprise in a team towards a goal of enlarged production and greater efficiency, it cannot afford to equip its wagon with brakes designed by monopoly.

PART IV. AREAS OF CONFLICT

Chapter 9

Rival Traders

Exports, as we have seen, figure prominently in both American and British postwar planning, public and private. In Britain, the revival and expansion of foreign markets has been given a triple-A priority, for means must be found to pay for the large volume of imports without which the country cannot eat, let alone prosper. In America's economy the role of exports is less crucial, since for generations the United States has easily been able to finance all the imports it was prepared to take. But for many important American industries, extension of overseas sales appears necessary to salvation; they see no other means to maintain production at profitable levels. Thus in both countries business is being geared to an accelerated drive for foreign customers. Is there room on the road for both?

In each country there is widespread fear of the "unfair competition" that the other will offer. In Congress, as in business circles, the complaint is constantly heard that Britain compensates for industrial backwardness by political smartness. While America concentrated on the war effort, it is commonly alleged, the British government was busy devising cunning schemes to monopolize postwar trade. Exactly the same charge, in reverse, is made in London. Ministers responsible for the future of British trade, Sir Patrick Hannon, M.P., President of the British National

Union of Manufacturers, asserted in 1944 are completely unprepared "to face the well-devised postwar planning of the United States."

In American discussions of this subject great stress is usually laid on the advantages that accrue from the British imperial system which, it is alleged, provides endless opportunities for controlling markets and supplies of raw materials. Nor are nice distinctions between the colonies and the Dominions always made. Many Americans who should know better believe that Canada's tariff policies, for instance, are laid down in London rather than in Ottawa. There are better grounds for complaints of British discriminatory trade practices in the decade before the war, and for fears that they may be employed even more extensively in the future. Such methods may, in fact, do little to affect the total volume of American exports, on which the main limitation is the supply of dollars made available to other countries, but they can upset established markets for particular industries and thus create a large amount of resentment.

In Britain, when one asks for examples of "unfair" American trading, the reply is likely to include mention of "dumping"—the sale of goods abroad at prices below those asked at home—and export subsidies, which constitute publicly financed dumping. The great postwar fear, however, is that American credit will be used to "force" goods on foreign customers. For instance, in the event of competition between manufacturers in the two countries to supply power-station equipment to Brazil, the British firm might have an advantage in price. Nevertheless, it might lose the contract because its American rival was able to offer longer credits. "How will the United States use its surplus capacity after the war?" asked Sir George Schuster, M.P., in a

speech to the American Chamber of Commerce in London. "Will she pour it out on the world . . . or will she concentrate on raising living standards at home leaving some leeway in export trades for others. . . . We are frightened at what we read on your country's preparations for post-war industry and export." *

Fear breeds suspicion and suspicion lends wings to all manner of rumors. Toward the end of 1944, when early victory in Europe was assured, accusations of market-stealing became common on both sides of the Atlantic. Not long after the liberation of France, a furore was started by the London *Daily Mail's* assertion that, while British businessmen were forbidden to go to Paris, American businessmen were getting there in uniform, ostensibly on army orders, but actually to look after their private interests. Heated denials were made, solemn editorial lectures rebuked the British paper. One William LaVarre, former assistant to Jesse Jones, retorted that representatives of American firms were being prevented from traveling in certain parts of the world, even for transit purposes, unless they secured approval from the British Board of Trade.** In the end, it appeared that the *Daily Mail's* story was not without foundation. The only way to get representatives to Europe, an executive of a prominent American firm complained to the press, was to send them in uniform: his regret was that the number able to go that way was all too small.†

The operation of export controls in both countries led to many protests. In the United States the National Association of Manufacturers declared that American makers of leather belting were being excluded from the Indian

* New York *Times*, Oct. 20, 1944.
** New York *Herald Tribune*, Sept. 24, 1944.
† *Ibid.*, Oct. 4, 1944.

market by a secret agreement negotiated through the Combined Production and Resources Board. Similar discriminations for the benefit of British industry were said to be present in the textile field. In London a parallel series of complaints was published in the *Daily Mail* under the heading: "Stranglehold on Britain." One article quoted a letter deploring the difficulty of obtaining British textiles in South Africa. "The writer," it went on, "was recently in Rhodesia and met American goods everywhere. Merchants had perforce to avail themselves of this supply and the consequence of the public becoming acquainted with these goods must be to the detriment of British imports." *

Another report told of an Australian order for a ring-spinning frame, received by a Lancashire firm, which had been held up for months waiting for a Board of Trade license. Meanwhile, it was said, the Australian customer had no difficulty in securing other machinery from the United States.** Yet a week or so later the New York *Times* was publishing statements by American merchants to the effect that the British government was impeding sales of United States textile machinery by withholding foreign exchange licenses from would-be buyers in the "sterling area." The contradictions of these various stories do not mean that they were inventions. Owing to the world shortage of certain goods, of which textiles are an example, the British and American governments, through the Combined Boards, arranged to allocate supplies and markets. It would have hindered the war effort if exporters from both countries competed in South Africa while neglecting West Africa, where cotton cloth was needed to provide an incentive to native producers of vital raw materials. Another factor in-

* *Daily Mail*, Nov. 14, 1944.
** *Ibid.*, Nov. 21, 1944.

fluencing the issuance of export licenses was the desire to economize shipping and avoid cross-hauling. Steps taken to achieve these ends often could not be explained and appeared arbitrary to the traders affected, who all too hastily concluded they were the victims of a deep-laid British (or American) plot.

It is a sad, rather than surprising, commentary on the persistence of national commercial rivalries, that one of the most powerful weapons of victory—Lend-lease—should have led to a good deal of mutual suspicion. Accusations of British "cheating" in its use of American aid have been stock fare in certain newspapers and have been echoed in more responsible quarters. An article in the *N.A.M. News Weekly*, organ of the National Association of Manufacturers, of August 9, 1944, attacking the idea that Lend-lease might continue after the fighting had stopped, implied that Britain had been making a nice profit by selling to other countries goods received from America. "We have allowed her (Britain)," it asserted, "to sell huge quantities of Lend-lease goods in the Middle East, Far East, Africa and Spain." In this way, it was suggested, Britain had been able to rebuild its depleted stock of dollars to a handsome figure. Oscar Hobson, well-known London financial writer, replying to this article, declared: "I am able to state on authority that the proceeds of sales of all Lend-lease goods in the Middle East . . . accrue in local currency and not in dollars and furthermore arrangements have been made to pay all such proceeds . . . to the Lend-lease Administrator." *

Another persistent rumor—that raw materials received through Lend-lease were being converted into manufactures for commercial export—proved particularly infuriat-

* *Anglo-American News* (Official journal of the American Chamber of Commerce in London), Oct., 1944.

ing to many Britons. The facts were just the contrary, they declared. Late in 1941, a few weeks before Pearl Harbor, the British government signed an undertaking not to use Lend-lease materials for export or even to apply materials "similar to those supplied under Lend-lease" in such a way as to compete with American trade in foreign markets. That is to say while any steel was being received from America for purposes of war production, British exports of articles made of steel were severely limited. The agreement seems to have been observed to the point where British businessmen protested that, so far from being able to cut into American markets, they were being completely squeezed out of their own. Actually, it is doubtful whether this restriction played a large part in the severe shrinkage of British exports from 1942 onwards, since, in any case, there would have been little manpower or materials to spare for overseas markets. But it was felt to be an unfair handicap, particularly as the restriction did not apply to commodities—natural rubber, for instance—shipped to America on reverse Lend-lease. Fortunately, this dispute was brought to an end at the close of 1944 when a new agreement was signed by which Britain undertook to pay in cash for all materials which might be used for commercial exports.

In one of its attempts to shoot current *canards* on the wing, the Foreign Economic Administration described the following statement as "fiction": "While we ship to Britain billions of dollars worth of Lend-lease goods, Britain is increasing her commercial exports to Latin America at the expense of this country." This rumor, it was noted, "reappears every time the war news in Europe turns favorable and the problems of reconversion and postwar markets return to the front page. Actually, British exports to Latin America have fallen off drastically during the war, while

United States cash exports to those countries have increased above prewar levels." * The aggregate value of British exports to South American countries in 1944 was, in fact, only 30 per cent of that in 1938; that to Central America and the West Indies (other than British colonies) only 66 per cent of the prewar figure. United States exports to all the Latin American republics for the first six months of 1944 fell little short of the total for all 1938.

What is true of Latin America is true of world markets as a whole. Thus in 1938, United States exports were 134 per cent of United Kingdom exports; in 1942, they were 278 per cent of the British total.** Such comparisons make bitter reading for Britons and suggestions have been made in Parliament that they represent the fruits of a calculated American plot to monopolize a large part of world trade. Sir Patrick Hannon, M.P., a die-hard Tory, declared in the course of a House of Commons debate on November 14, 1944, that "careful plans are in progress in the United States to seize practically the whole of South American trade." It is difficult to see, however, that any criticism attaches to the United States, for the situation that has arisen could hardly have been avoided. In order to maintain a flow of raw materials and foodstuffs from the primary producing countries, a flow made imperative by war requirements, it was essential to assure to such countries a minimum of manufactured goods. America's unrivaled productive capacity was alone equal to producing a surplus for this purpose, on top of an immense output of war materials. Another factor to be taken into account was the economy achieved by utilizing Britain's industrial facilities as far as possible for the manufacture of munitions, since

* New York *Times*, Feb. 8, 1945.
** W. Manning Dacey, *Foreign Affairs*, Jan., 1945.

it was the base from which those munitions were employed. A more even division between the two countries of the task of supplying export markets would have been wasteful of shipping space.

We may, therefore, acquit America of Machiavellian designs but this does not alter the fact that the war has immensely strengthened the position of the United States in world trade while weakening that of Britain. Consequently, a greater degree of understanding of its need for exports and some tolerance of its efforts to recover lost markets—a task which under the best of circumstances is going to prove of Herculean magnitude—seems desirable in the interests of future Anglo-American relations. For instance, Britain before the war was the largest single supplier of imported goods to Brazil. "But now," a special correspondent of the *Wall Street Journal* in Rio de Janeiro reports, "British businessmen here, although fighting hard to win back that position, privately admit that American exporters and American goods have established such a strong foothold that it will be difficult to oust them." *

The same situation prevails in other Latin American countries and published statements in Washington indicate that the policy-makers hope to keep it this way. In an appraisal of postwar markets the Office of the Coordinator of Inter-American Affairs estimated that the republics below the Rio Grande might buy as much as $10 billion worth of new and used industrial equipment in the first ten years of peace. The report suggested that the United States would supply $5.7 billion of this total; other American countries (including, presumably, Canada), the balance. No account was taken apparently of the probable interest of European nations in this very large market.**

* *Wall Street Journal*, Apr. 19, 1945.
** *Ibid.*, Oct. 23, 1944.

A lot has been written and spoken about Anglo-American rivalry in the Near and Middle East—a region of growing economic importance, thanks to oil discoveries and other developments. Senators James M. Tunnell and Harold H. Burton, reporting to the Senate War Investigating Committee after a tour in that part of the world, declared that the United States was in danger of being eliminated from its trade after the war. "It would be an anomalous position for the States to occupy," they said, "after putting up the men, the money and enduring all the sacrifices which these mean, to have our country precluded from the markets which we have liberated." *

Other observers, however, believe that America's trading position in this area has been strengthened during the war years, always provided that the prospective customers are able to earn dollars with which to buy American goods. Returning from Cairo, after more than a year as director of the American Economic Mission, James M. Landis told the press that Egypt and other countries were now looking to the United States because they had lost communications with Europe and had come to appreciate American goods. But, he warned, the future of business relations with these countries would depend on mutually profitable and freer exchanges.** This view is confirmed by R. C. Thompson, of the Electric Auto-Lite Company and member of an official mission to the Middle East, who was reported as stating: "While American exporters have gained almost immeasurably in a competitive position with Great Britain in exports to the Middle East, the next problem of this country is to see how exchange values can be maintained with that part of the world." †

* New York *Herald Tribune*, Feb. 16, 1945.
** New York *Times*, Jan. 11, 1945.
† *Ibid.*, Dec. 15, 1944.

American traders, then, have secured a firm grip on foreign markets where previously they had barely a toe-hold, while they have increased their predominance in those countries where they were solidly established before the war. At the same time, Lend-lease has served, incidentally to its main purpose, as a great promotional scheme introducing many goods, which have peaceful as well as warlike applications, to allies who needed them direly and found their performance most satisfactory. In the postwar race for world markets, the United States has clearly a flying start. Can it hold its lead?

One of its great advantages, compared with Britain, is that it has concentrated on exports of technically advanced industrial goods. In 1929, 38.8 per cent of American manufactured exports fell in commodity groups in which international trade had expanded by 76 to 150 per cent since 1913, and 28.6 per cent in those in which it had expanded more than 150 per cent. The comparable percentages for Britain were 33.5 and 4.3.* The typical American export has been the automobile; the leading British export up to the war was cotton textiles, in the manufacture of which there had been relatively little technical progress. Moreover cotton spinning and weaving are usually the first manufactures to be adopted by countries seeking industrialization.

Britain's lower wage standards are sometimes quoted as affording it a competitive advantage but cheap labor does not necessarily mean lower labor costs. Production per man hour is far higher on the average in America than in Britain, and, up to now, has been increasing more rapidly. This is partly due to the fact that mass-production methods have been encouraged in this country by its huge home market.

* Eugene Staley, *World Economic Development* (Montreal, International Labor Office, 1944).

But it is also true that that market has been developed by bringing the cost of luxuries down to the income level of the masses—a policy subtly discouraged in Britain by a social atmosphere which makes class distinctions between goods as well as people. Thus British specialties tend to be luxuries for the few rather than the many, custom-made articles which derive their appeal from their expensively unique qualities.

It remains to be seen whether this tendency will outlive the war. Continuance of high rates of taxation and the trend toward redistribution of incomes may very well persuade British industry to cater more for the lower-income brackets. In any case, while efficiency is low in many industries, as we saw in the last chapter, the war has forced progress in others and particularly in various branches of engineering. There is too little data at present available to make valid comparisons between American and British costs in general. But some figures given in the Chancellor of the Exchequer's second report on Mutual Aid * suggest that the British challenge in export markets may be sharper than anticipated. This document lists prices for comparable items which Britain has both received on Lend-lease and given on Reciprocal Aid. Here are some examples:

	Price Per Unit U.K.	U.S.
3-ton trucks	$1520.00	$3232.00
Parachutes	134.00	164.00
Aircraft tires	158.50	348.00
Wireless sets	416.00	644.00
Cable (per mile)	23.50	34.50

Different accounting methods and, perhaps, more elaborate specifications may account in some part for the strik-

* Cmd. 6570. London, Nov., 1944.

ingly higher American costs. But after making all allowances some competitive advantage appears to remain with the British. The much lower price for trucks is especially interesting since there is a tremendous potential demand for such vehicles.

Another field in which conditions may prove fairly competitive is industrial machinery—particularly the heavier items in the making of which mass-production methods are not applicable. In many cases British costs may prove lower, but against this must be set the generally more advanced design of American equipment which often compensates for higher initial costs by cheapness of operation. Moreover, in selling goods of this type, ability to give long credits is a very persuasive argument. Russia, for instance, is said to be in the market for a huge volume of industrial plant and machinery provided it can be obtained on easy terms. But since Britain's problem is to earn enough foreign exchange from exports to pay for current imports, it can only afford to give credit in a very small way. America, on the other hand, is in a position to give almost unlimited credit, if it can make up its mind to accept the imports through which such loans must ultimately be repaid.

All things considered, it is probable that American business need not unduly fear straight British competition in export markets. What is more alarming is the growing talk of "using Britain's place as the world's greatest importer to force her manufactured goods on the markets of foreign suppliers." * This would mean intensification of discriminatory practices which were becoming so marked a feature of international trade in the thirties. Discrimination is, of course, a word covering a multitude of economic sins—

* Captain L. D. Gammans, M.P., in speech to American Chamber of Commerce in London. New York *Times*, March 23, 1945.

usually the other fellow's. Britain's Empire Preference arrangements, under which the various members of the Commonwealth grant each other lower tariff rates than are charged to foreign countries, is a prime example. But Americans who criticize it sometimes forget that they have a preferential treaty with Cuba and that, unlike Britain, the United States confines the carrying trade with its dependencies to ships flying the American flag.

The fourth clause of the Atlantic Charter condemned by implication all economic discrimination but it included the words "with due respect to existing obligations," and so, according to British interpretations, safeguarded the Ottawa Agreement. On the other hand, many Americans feel that the Empire Preference system is not only bad in itself, but worse as a precedent, and pressure has been put on Britain to abandon it in return for postwar financial aid. But although, as we saw in Chapter 7, Britain's exports were not noticeably stimulated by the Ottawa Conference, in the difficult days ahead its Dominions and Colonies may seem to be the only customers on which it can count. Moreover, the Dominions, and particularly Australia, New Zealand, and South Africa, regard a protected entrance to the British market as vital so long as their surplus farm products face insurmountable barriers everywhere else. So the question arises: what positive contribution to freer world trade is the United States prepared to make? How far is the President prepared to make use of the power bestowed by the renewed Reciprocal Trade Agreements Act to reduce customs rates as much as 75 per cent below the Hawley-Smoot level? Is America going to lead the attack on economic nationalism or to content itself with lecturing other countries about their duties?

The most persuasive argument that the United States

can offer to combat discrimination is, in short, to mend its own ways. This requires more than lower tariffs. For instance, the Argentine is likely to listen to British proposals for a balanced exchange of goods so long as its beef is excluded from this country, ostensibly as a safeguard against the spread of cattle diseases, actually as a form of protection for American stock raisers. This hurts the Argentinians both in pride and pocket. Or consider the case of the Brazilian cotton growers, whose trade has been upset by an export subsidy granted to American planters. From the Brazilian point of view this is unfair competition and, should it continue, might well encourage a deal by which Lancashire increased its takings of Brazilian cotton in return, say, for a special import quota of British farm machinery.

Among British businessmen the fear of American competition is very strong. A survey conducted in 1944 by Harold Whitehead and Staff, Ltd., a London firm of industrial consultants, showed that 77 per cent of the business executives it polled anticipated postwar competition from American products in export markets. To a question whether they favored postwar arrangements with the United States regarding export spheres generally, 60 per cent gave an affirmative answer, while 59 per cent supported arrangements regarding sources of raw materials. Many letters received by the conductors of this survey stressed the strong desirability of cooperation between British and American business. At the same time there was frank recognition of the difficulties caused by differences in national outlook. One letter, for example, declared: "In Britain it is thought that wasteful competition can be curtailed with great advantage both to British industry and to American industry, and that, in respect of many markets

of the world, it ought to be possible for arrangements to be made limiting particular lines of manufacture to one country or the other. But this would be completely unacceptable, as far as can be judged, to American industries."

A report of the International Policy Committee of the Federation of British Industries asserts: "Market forces cannot be relied upon automatically to establish equilibrium in international trade. The choice is a return to the jungle law of unregulated competition or the adoption of conscious planning to raise world prosperity." As an instrument of such planning the committee recommends creation of an International Economic Council, one function of which would be to "guide international trade into channels where it would be most beneficial to both producer and consumer." The methods by which this unexceptional objective is to be achieved are not very well defined, but the committee approves of commodity marketing agreements and suggests investigation of the possibility of agreements of the same nature covering manufactured goods, to be negotiated by similar industries in different countries. This, of course, means cartels or, to use the British euphemism, "trade accords."

Such open and unashamed desertion of the maiden *laissez faire* has evoked cries of horror from American businessmen and pledges that they, at least, will remain forever faithful. Such protests, however, are not entirely convincing, for evidence that many leading American corporations have enjoyed illicit relations with international cartels is spread on the blotter of the Department of Justice. Admittedly the climate of American opinion is at present unfavorable for the renewal of international liaisons but, should life with competition prove too strenuous, business will, no doubt, seek relaxation in the same arms.

The furore created by wartime publicity about the activities of international cartels, and the way they were used by the Nazi government in its war preparations, has put American participants on the defensive. Their line is now that they were reluctantly forced into such associations to save themselves from being squeezed out of world markets. A resolution of the 31st National Foreign Trade Convention declared that there "must be neither private agreements nor government monopolies operating in restraint of trade." But the same group in a final statement of policy recommended that, since it was "impracticable" to convert foreign countries which permitted or encouraged cartels to the American system, American laws should be modified to allow "standards of competition between Americans and foreigners, and thus also between competing American firms, to be determined by the applicable foreign law." What price American sovereignty?

Actually, in the case of most kinds of industrial goods, the competitive position of the United States will be so powerful after the war that there will be less excuse than ever for the entanglement of American business in cartels. With German industrial exports largely eliminated, few foreign combinations can hope to succeed in restricting world markets unless aided and abetted by American companies. The United States has, in fact, a great opportunity to provide leadership for the suppression of private world government by international cartels. But it will not be able to seize that opportunity unless it is prepared to renounce its own restrictive practices, and to take steps to end the economic instability that encourages private attempts to "rationalize" markets.

Chapter 10

Raw Deals in Raw Materials

The pledge of "access on equal terms" for all nations to the raw materials of the world, which forms part of the fourth clause of the Atlantic Charter, is of particular interest to the United States because of its increasing dependence on imported commodities. From one-fifth to one-fourth of all factory materials consumed, it has been estimated, are obtained from abroad and, under conditions of full or nearly full employment, this proportion is bound to increase.* America's original endowment of natural resources was comparable to that of any equivalent area in the world but they have been exploited improvidently and many have been seriously depleted while others are within sight of exhaustion. The possibility, for instance, that domestic oil reserves will soon go into a decline must be taken seriously and a growing deficiency in lumber and wood-pulp production is also indicated. Nor can America any longer depend wholly on its own supplies of such basic metals as copper, lead and zinc.

The development of synthetics has lessened America's needs for some imports—natural rubber is one example—but, on the whole, technical progress tends to enlarge the use of foreign raw materials. Many of the alloy metals

* *America's New Opportunities in World Trade* (Washington, National Planning Association, 1944).

which play an ever more prominent role in the metallurgical industries are found in inadequate quantities, if at all, within the United States. There is no domestic production of tin, nickel and platinum, while manganese, chromite, tungsten, and vanadium are obtained mainly from other countries. America's industrial shopping list in foreign markets also includes such vital minerals as bauxite, industrial diamonds, long-fiber asbestos, high-grade mica, quartz crystal, antimony and mercury. The vegetable kingdom accounts for many other items. Nylon may have knocked out real silk, which used to be America's largest import, but there are as yet no substitutes for such fibers as jute, hemp, and sisal from which sacking, rope, binder twine and many other articles are manufactured. Vegetable oils are obtained in large quantities from foreign sources while America is wholly dependent on imports for its favorite beverages—coffee, tea, and cocoa.

Before the war many raw materials important in world commerce were partly, if not entirely, controlled by cartels or through commodity agreements in which governments participated. Such controls were designed to limit supplies and raise prices and some of them proved very irksome to American consumers. This has been, and may prove in the future, a cause of friction with Britain, whose colonies produce large quantities of the commodities which America must import. The most notorious cases in the past were the tin and rubber schemes promoted by the British and Dutch interests which control these materials. Both plans announced their aim to be stabilization of prices but both showed how the appetite for restriction rises with the reaping of monopoly profits. And both illustrated the fact that commodity controls are seldom fully effective, at least where a large number of producers are involved, without

government intervention. On a voluntary basis, neither the tin miners nor the rubber planters were able to hold their ranks. Some producers remained outside the ring; others signed the restriction agreements only to "chisel" by selling beyond their quotas. It was after the force of law was placed behind export quotas that prices really soared.

Supporters of such commodity agreements would doubtless claim that they did not prevent "equal access" to supplies by consuming nations. It is true that makers of tires and tin plate in Britain and Holland received no advantage; they were mulcted just as heavily as American consumers. In this sense there was no discrimination. Nor were foreign investors kept out. American capitalists were welcomed into the club provided they paid their dues and observed the rules. One large American rubber manufacturing company owned extensive plantations in the Netherlands East Indies and so shared in the boom.

A raw material monopoly of a different kind, which has aroused much American criticism during the war, is that in industrial diamonds. Tight control of the diamond market dates back to the last century when Cecil Rhodes organized the wildly competing diggers of the Kimberley fields into the DeBeers Company. Important discoveries of diamonds in west and southwest Africa have not disturbed the hold of this trust. Through its selling arm, the International Diamond Syndicate, which decides how many diamonds can be sold annually, it has kept a grip on new producers. But it could hardly have done so without tacit support from the British government and still more from the South African government, which could have broken its monopoly by throwing open the diamond-rich, mandated territory of South West Africa to prospectors. So far as gem diamonds are concerned, it might be argued that this policy

is justified since ultimate consumers desire them precisely because they are scarce and expensive. But industrial diamonds have an increasing number of important applications in working hard metals, in rock-boring and sinking oil wells. They play a vital part in war and peace production and artificial restriction of the supply is a prime example of the kind of raw material control which is entirely contrary to the spirit of the Atlantic Charter.

The Diamond Syndicate represents a genuine monopoly which, thanks to its grip on limited sources of output, is able to maximize profits by setting prices on the basis of what the traffic will bear. But it is rather an exceptional case, for most commodities in international trade are produced by too many undertakings in too many different countries for this kind of control to be exercised. Usually such producers are brought together, not to maintain high prices, but to seek a remedy for critically low ones. Their announced purpose is then stabilization—the balancing of supply and demand—and almost invariably attempts to reach this objective take the form of curbing supply rather than of promoting demand. If world trade as a whole is expanding, the result may be an upturn in prices, and once the producers' appetites are whetted, they are apt to forget the ideal of stabilization and tilt the balance the other way. That probably encourages an increase in production in areas outside the range of control, so that when trade generally reverses its trend the specter of over-production once again raises its head. For instance, one reason for the deflation of the rubber restriction scheme was "bootlegging" by small native planters.

Commodity agreements launched in times of depression, as they usually are, are likely to result in a further decline in demand, since consumers refuse to pay higher prices,

and producers are forced to take more and more severe measures of restriction. Under any circumstances, therefore, the ideal of stabilization is seldom or never achieved. But attempts to achieve it succeed, just as tariffs and other trade barriers do, in clogging the channels of world trade, in reducing total consumption, in freezing the pattern of production, and in removing incentives to efficiency.

It is only fair to recognize, however, that in our crazy economic world there is a case to be made for some commodity agreements. Cyclical trade movements usually hit producers of raw materials with peculiar force. In a depression the prices of what they have to sell in most cases decline far more rapidly than the prices of the things they buy. During the early thirties in this country farm prices collapsed while many industrial prices remained comparatively stable. A handful of steel companies, acting in consort, could hold up prices by curtailing production, but millions of farmers, dependent on one cash crop, had to carry on operations in the desperate hope of making enough to prevent foreclosure of their mortgages. Their plight was worsened by the rigidities of the industrial price structure, made possible by tariffs and effective, if illegal, price-fixing agreements.

A few commodities in world trade, particularly minerals, are produced mainly by big corporations strong enough to ride out economic storms, though even they, being dependent on world markets, are usually far less able to maintain prices than protected industrialists. In the case of most vegetable raw materials or foods, however, the typical producing unit is very small and is in competition with thousands, perhaps millions, of other units. Voluntary organization of such producers is extremely difficult even inside one country; when they are spread over many lands it is

impossible without intervention by their governments. Nor are agreements between governments easily reached except in times of critical distress when restrictions may appear to be the only possible means of salvation.

Depressions invariably start in industrial countries, which are rich enough to afford violent fluctuations in consumption, and primary responsibility for situations which give rise to schemes for commodity agreements rests on them. Only when such countries learn to stabilize their economies, which will include control of their own monopolies, will they be entitled to preach to producers of raw materials about the wickedness of restriction. Moreover, the corollary to the doctrine of equal access to raw materials is equal access to markets. Tariffs not only act as an artificial stimulus to the production of particular commodities, thus tending to upset the balance between world supply and world demand, but also impede the operation of the normal corrective for such situations—a fall in prices.

Sugar affords a prime example of the damage done by tariffs and subsidies to producers dependent on exports. By means of one or both of these devices most European countries, together with the United States, have fostered high cost beet-sugar industries at the expense of the cane planters in the West and East Indies. Struggling with the chronic surpluses which have thus been created, sugar exporting countries can hardly be blamed for attempting to remedy their troubles by organization; nor for taking advantage of wartime shortages by raising their prices as much as possible.

An even more instructive story is that of cotton. During the great depression the United States government, in an effort to give farmers some of the protection enjoyed by industry, shored up the price of cotton and other crops,

first by means of AAA payments and then by the commodity loan scheme. The condition of this assistance was reduction of acreage. However, the higher prices proved sufficiently attractive to cotton growers to encourage them to use more fertilizer on the fields they kept in cultivation —naturally their better ones—so that production on the smaller acreage was almost as great as before, and the surplus remained. At the same time higher prices encouraged planters in other countries, notably Brazil, to increase their output and undersell the American farmers who, fearing the permanent loss of foreign markets, demanded export subsidies. In 1944 Congress authorized the sale of American farm produce abroad at lower than domestic prices and a payment of four cents a pound dropped export quotations for cotton to within a fraction of a cent of the Brazilian price.

Brazilians met the competition by cutting their prices further but they were, not surprisingly, upset by the way in which their good neighbor was playing ducks and drakes with the world market. As a Sao Paulo cotton dealer remarked to a writer for the *Wall Street Journal:* "There is naturally a certain amount of wonder here as to whether the United States really means what it says when political leaders there preach about removing international trade barriers and abandoning unfair marketing methods." * The American defense of subsidies on the ground that foreign producers were "stealing" traditional American markets is hardly convincing. No one, under the competitive free enterprise system, has a prescriptive right to any market and in this case foreign producers can legitimately claim that they have merely picked up what America threw away.

* March 28, 1945.

All American efforts to solve its cotton surplus problem have failed. Domestic consumption has enormously expanded during the war but foreign consumption has fallen sharply. The United States carry-over remains near the prewar peak—over 12 million bales—while the world carry-over is around 26 million, enough to keep the world's mills at capacity operations for a year.* If the majority of the earth's inhabitants were not habitually clothed in rags, there would be little difficulty in working off this accumulation of cotton, large as it is. But, pending steps to raise standards of living universally, it is probable that the Brazilian idea of an agreement between the cotton-growing countries to fix export quotas and limit production will command a lot of support. This proposal puts the United States on the spot. It can hardly refuse to join in such an agreement while continuing to disorganize the world market by subsidized dumping; nor can it suddenly withdraw all support from its own cotton growers. Yet if it does sign up it will stamp with its approval a fully fledged commodity agreement and set a precedent for other commodity producers plagued with surpluses. American leadership for freer world trade will not readily be accepted if it sets one standard as seller, another as buyer.

Searching for a way to avoid the horns of such dilemmas, the State Department has brought forward a plan to make commodity agreements respectable by bringing them into "the framework of international economic collaboration." A program to achieve this end was outlined on April 4, 1945, in an address before the Academy of Political Science, by Bernard F. Haley, director of the Office of International Trade of the Department of State.** He pointed out

* *Business Week*, March 31, 1945.
** Text published in the Department of State *Bulletin*, Apr. 8, 1945.

that the war was likely to leave a heritage of burdensome surpluses of a number of commodities and that it was desirable to find a "remedial" way of coping with them. In the past, he said, the emphasis in commodity agreements has nearly always been "upon the restriction of output and the maintenance of prices, and little effort has been made . . . to remove the basic causes of the maladjustment of supply and demand."

Briefly summarized, the State Department plan is to set up, under the auspices of the Economic and Social Council of the United Nations, an international organization empowered to supervise the negotiation and operation of commodity agreements. Such an organization would have both research and administrative functions. It would be able to investigate the basic causes of unbalanced commodity situations and propose programs which, while tiding producers over critical periods, would be designed to correct maladjustments in supply and demand. Further it could establish fundamental principles to which all commodity agreements would be required to conform. In particular, it is suggested, agreements ought not to be exclusive but open to accession by any country, whether interested as consumer or producer. This provision should prove an important safeguard against the tendency of commodity schemes to switch their goals from stabilization to monopoly.

To be fully effective, however, an international economic organization would need additional police powers. It should be in a position to protect producers against combinations of buyers, for in the case of a good many commodities, particularly those raised in backward countries, it is the producer rather than the consumer who is the victim of exploitation. On the other hand, we have powerful groups

who control both production and distribution by means of private treaties. It has proved difficult to regulate international cartels by national measures and some kind of broader authority is required to drag their operations into the daylight and shield the consumers of the world from their depredations.

As an example of producer exploitation, we may consider the case of cocoa. The British West African colonies, Nigeria and the Gold Coast, produce half the world's supply of this commodity, while the United States consumes about the same proportion, all of which it must import. The price of cocoa is, therefore, a matter of vital interest to tens of thousands of native small-holders (there are no big European owned plantations) and of considerable importance to millions of American housewives, candy lovers, and drugstore patrons. During the war, when shipping shortages made it impossible to export normal quantities of cocoa, a government board in West Africa monopolized marketing and fixed prices. Although in some years it was forced to destroy part of its holdings, its operations resulted in a profit which is being applied to agricultural research and education and for other purposes beneficial to the natives.

Now the Colonial Office is proposing to continue this scheme, at least until such time as the growers are able to organize their own cooperative marketing board. American cocoa merchants and processors have protested vigorously and have asked the State Department to intervene. The plan, they say, is contrary to the principle of equal access and provides for a permanent cartel. The British reply is that the scheme affords no preference to the British cocoa trade, which indeed is as indignant about it as the American. Its purpose is to protect native producers from a prewar

system of marketing which *The Economist* has described as "riddled with abuses." The trade was then in the hands of a small group of European shipping firms who alternated between cut-throat competition for "tonnage" and the formation of buying "rings." As a result prices were subject to disastrous fluctuations.

Two principles of colonial "trusteeship" appear to be in conflict here—that of "equal access" and that of the protection of the native population from exploitation. For in a situation where numerous poor cultivators confront a few rich buyers of their produce there can hardly be that equality of bargaining power which is an essential element of a truly free market. The reconciliation of such conflicts is the kind of task an international economic organization should be equipped to undertake. In this case Britain might claim, of course, that its proposals were purely a matter of domestic legislation. But since, in principle, it supports international planning, it would probably submit its program to the jurisdiction of international authority and would agree to give America and other consuming nations a voice in decisions of the cocoa marketing board.

It is impossible to imagine controversy over so benign a commodity as cocoa dissolving into conflict. Oil, on the other hand, is the most politically dangerous fluid in the world for it not only involves huge financial interests but, as a prime ingredient in security, touches the great powers in their most sensitive spots. Twice German aggression has been submerged in a flood of Allied oil, making it clear that without invulnerable oil supplies no nation can successfully wage war. It is, therefore, completely unrealistic to discuss the problems of this commodity in purely economic terms. As long as the world is divided into separate sovereignties, market considerations will be of secondary

importance in determining the production and distribution of oil.

It is not easy, however, for Americans to appreciate this fact since hitherto their domestic oil supply has been sufficient to provide them with complete assurance of security. But besides being the world's greatest producer of oil, the United States is also the greatest consumer and, while experts differ on this question, there is at least a possibility that its underground reserves will be exhausted within a measurable term of years. Consequently the Army and Navy as well as the big oil interests are concerned about future sources of supply.

Outside the United States there are two major oil-bearing regions more or less open to foreign exploitation—the countries bordering the Caribbean and the lands around the Persian Gulf. In the first, production is mainly in American hands and Britons have sometimes complained that they were hampered in obtaining concessions there. In the second, the Anglo-Iranian Company gained a long start and after the last war Americans charged that British interests were attempting to monopolize opportunities there. Vigorous representations by the United States government following the last war secured American companies equal shares with the British, French and Dutch in the development of the rich Iraq oil fields. This interest in the Iraq Petroleum Company is now divided between Standard Oil of New Jersey and Socony-Vacuum. Later, Gulf Oil and Anglo-Iranian obtained a joint concession covering Kuwait, a small state under British protection, while Standard Oil of California in partnership with the Texas Corporation formed the American-Arabian Oil Company to exploit rights in the huge independent kingdom of Saudi Arabia. Not many wells have yet been sunk in these two territories

but geologic investigations indicate immense reserves. In fact, the whole region from the Black Sea to the Persian Gulf appears saturated with oil. *Fortune* for April, 1944, quotes an enthusiastic but anonymous State Department official: "The ordinary man cannot imagine the wealth of this region. The oil here could create a hundred Rockefellers."

The American companies have been assured access to this wealth but the British have so far succeeded in controlling the pace of development. The practice of the Anglo-Iranian Company, with its associates and satellites, has been to restrict production to the amount that could be sold at a very profitable margin. A price war which broke out in the early twenties was ended by the Red Line Agreement, a private treaty between the four groups represented in the Iraq Petroleum Company, which supplies oil to its members at cost. "It acts," according to Paul Wohl, "as an international trade association or cartel through which production, prices, and markets are controlled, the basic understanding being that none of the member firms will go into any oil venture in the Red Line area [covering most of the Middle East] without giving the other member firms an opportunity to participate through their common organization—Iraq Petroleum." *

In conformity with this agreement, Gulf Oil's participation in the Kuwait concession was made subject to restrictions on the competitive sale of its share of production and, as a result, no oil has yet been shipped from this field. Marketing difficulties, heightened by the war, have also held up developments in Saudi Arabia. This has been painful not only to the American concessionaires but to King

* New York *Herald Tribune,* June 17, 1945.

Ibn Saud, who impatiently awaits his share of the profits. During the war, he pressed for advances against future royalties, and when the American companies reached their limit, he turned to the British government. Fearing a deal which might injure their concession, the American oil men sought aid in Washington. They found in Mr. Ickes, Petroleum Administrator for War, a sympathetic listener, but did not like his proposal that the United States government should buy all or part of their rights. Eventually agreement was reached on a scheme for a pipe-line across Arabia to a Mediterranean port which would facilitate deliveries of oil to European markets. The United States Treasury was to provide the money and, in return, the American-Arabian Oil Company was to set aside a share of its production for the United States Navy.

When this plan became known there was general uproar. American liberals smelled imperialism; the big international companies, Standard Oil of New Jersey and Socony-Vacuum, were disturbed by the threat to their profitable partnership with the British in the Middle East; the American "independents" raged about government ownership; the British government was upset by the fact that it had not been consulted about a scheme which must have all sorts of repercussions in its Middle Eastern sphere of influence. With Mr. Ickes' pipe dream threatening to become a nightmare, a conference was called in Washington to harmonize Anglo-American interests.

The ensuing agreement, published in August, 1944, blessed, in very general terms, the theories of equal opportunity in the development of petroleum resources and of non-discrimination in making supplies available to all. But in the case of the international oil market we have to deal with a condition, not a theory—a condition of Anglo-American monopoly. (Dutch oil interests are so closely

intermingled with British that they can be included under the same head.) British and American firms control four-fifths of the world's oil production and almost 100 per cent of world export trade in oil products, and nothing in the agreement suggested any loosening of this grip. On the contrary, it declared specifically that "the governments of each country and the nationals thereof shall respect all valid concession contracts and lawfully acquired rights and shall make no effort unilaterally to interfere directly or indirectly with such contracts or rights." This underwriting of the status quo left "equality of opportunity" a rather shadowy privilege for other nations. Nor was there any suggestion that supplies would be made available except on terms agreeable to the monopoly. The agreement proposed an International Petroleum Commission to study long-term market problems, but it was not to be given powers to force the opening of "reserved" fields or the reduction of profit margins. Its proposed functions appeared to be purely advisory.

This agreement was subject to such bitter attacks by the independent American oil companies, which have powerful support in Congress, that it was withdrawn by the Administration. The basis of these attacks was that the pact set up a government sponsored cartel and would thus pave the way for interference in the domestic oil industry and eventual government ownership. But behind this general fear was a more specific alarm that the agreement would lead to increased foreign competition in America.* Opening European markets to Middle Eastern oil would mean the diversion of Caribbean supplies, now mostly sold in Europe,

* No specific reference to Arabia is to be found among the smooth generalities of the official document. However, much later announcement of plans for two new pipe lines, one to serve the American-Arabian concession, the other to add to the outflow from Iraq, suggests that some unpublished agreement was also reached.

to the United States. This would fit in with the government's idea that America should consume more foreign oil, thus conserving its own supplies; and it would not harm the big international companies with interests in all producing regions and all markets. But, in just the measure that it reduced pressure on American resources, the encouragement of imports would tend to depress profits for the independents who rely on domestic production and sales.

Thus a chapter in the long and tangled history of oil, which opened with an external row, closed with an internal brawl. The problem of reconciling the security interests of the great powers with a fair distribution of supplies remains. It is difficult to imagine the Big Three relaxing in any way their present grip on most of the world's oil reserves. Nevertheless, the smaller nations surely have the right to ask that they do not seek a monopoly profit on their security. This request must be addressed more particularly to America and Britain since Russia's production seems unlikely to exceed its own rapidly expanding consumption for a long period.

For reconstruction in Europe and Asia, for economic growth and higher standards of living everywhere, cheaper and more abundant oil for agriculture, industry and transport is a prime necessity. But it is doubtful if the need will be filled so long as production and distribution policies are determined mainly, not by the American and British governments, but by a private international cartel. The spirit, if not the letter, of clause four of the Atlantic Charter demands that an end be made to this monopoly. If the American and British governments sincerely desire to lower economic barriers they could make a good start by handing the job of policing international trade in oil to the Economic and Social Council of the United Nations.

CHAPTER 11

The Battle of International Transport

AMERICANS could hardly deny," the *Wall Street Journal* has written, "that their distaste for inter-government regulation and preference for open competition bears at least some relation to their confidence in the economic position their country is to have at the war's end." * But since Americans, like most other humans, wish to have their cake and eat it, this preference for open competition is apt to manifest itself only in those spheres where the United States has a clear advantage. Nowhere is this more obvious than in the field of international transport. In civil aviation, America is so far ahead at the present time that, given freedom of opportunity, it can hardly fail to win the race. Very intelligibly, therefore, it has taken its stand on a policy of open competition in an open sky. On the seas, however, the handicap of high construction and operating costs which afflicted American shipping before the war will inevitably reappear when peace comes. Pure competition might leave the great American merchant navy tied up in harbor, so that shipping policy calls for a continuance and, if necessary, an increase in subsidies.

* Nov. 30, 1944.

RIVALRY IN THE SKIES

Oceans, mountains, deserts, Arctic wastes, the ancient barriers to travel, have all been conquered by the airplane. No spot on earth, the advertisements have told us, is more than forty hours from our nearest airport. No physical obstacles to human communications remain; but the force that science has exerted in compressing space and time has been counteracted by an idea that has so far proved more powerful—the idea that national sovereignty extends as far as the heavens. This principle was firmly established by the Paris Air Convention signed in 1919; it was written into United States law in 1926 and confirmed by the Havana Convention adopted by the Sixth Pan-American Conference in 1928. Nothing has proved a greater hindrance to the development of air transport. It is true that both at Paris and Havana the signatory states undertook to allow "freedom of innocent passage" to each other's aircraft, but this privilege was limited in practice to private planes. "The establishment of international airways," the Paris Convention declared, "shall be subject to the consent of the states flown over." As a result no international airline could begin to operate without the negotiation of a treaty or concession.

Bargains between neighboring countries, each of which desired entry into the other's air, were not difficult to arrange. But the laying out of a long route crossing many frontiers was a matter of hard and complicated bargaining. For instance, the British mail service to India was held up for a period because Italy refused the use of its airports except in return for ruinous concessions. Some countries barred all foreign traffic from their air on military grounds. The United States refused the use of Hawaii to the planes of other countries, thus establishing an effective monopoly

of transpacific flying; Australia, which had wanted to start a service to Canada, retaliated by denying entry to Pan-America. After long negotiations, the United States and Britain signed an agreement in 1935 providing for two round-trip transatlantic flights a week by aircraft of each country. But Britain, not having planes ready for the service, held up implementation of the agreement until 1939. "Summed up, the major evils of the prewar period were, first, that any country on an international air route could hold operators of other countries to ransom even if those operators only wished to fly over or refuel in its territory; secondly, there was no means of controlling the heavy subsidization of airlines which all too often were maintained at great cost for reasons mainly of national prestige or as a war potential; and thirdly, that the bargaining for transit and commercial rights introduced extraneous considerations and gave rise to international jealousies and mistrust." *

This situation was becoming intolerable before the war while transoceanic flying was still in its infancy; after the war, during which so many technical advances have been made and intercontinental routes have become "milk runs," its continuance would stifle all progress. The International Civil Aviation Conference, which met at Chicago on November 1, 1944, was called to provide a remedy. It was not, however, an unqualified success, for while the countries represented shared a common objective—greater freedom for international air traffic—they proved unable to reconcile their different approaches to its attainment. The Conference divided into two factions, one headed by the United States with the backing of most Latin American countries and scattered support elsewhere; the other, led

* British White Paper on International Air Transport, London, 1944.

by Britain, which rallied behind it most of the European nations as well as its dominions.

The United States delegation maintained that:

> A general system of rights for planes to travel and to carry international commerce should be set up, becoming the established custom of commerce by air, as similar arrangements have become the settled law of commerce by sea;
>
> These rights of transit and commerce should be available to all nations, permitting equal opportunity and reasonable competition; and
>
> All nations should join in a world organization designed both to prevent competitive excesses and exploitation and to maintain technical facilities and standards.*

The British delegates did not appear to quarrel with this statement, but while the Americans stressed the second paragraph accenting competition, they concentrated on the third with its emphasis on the avoidance of "competitive excesses." Real equality of opportunity, they maintained, would be possible only if there were some kind of police authority to curb cut-throat practices.

In the discussions at Chicago five "freedoms" of the air were considered. Little difficulty was encountered in regard to the first two—freedom of transit through the air space of any country for all properly licensed planes, and freedom to make "technical landings," that is to say, landings in case of distress, or for refueling or repair. The "two freedoms" agreement which finally embodied these points was acceptable to most delegations and seems likely to be ratified by nearly all countries. This is a notable step forward. Nevertheless, international air transport will remain seriously handicapped without provision for the

* "Freedoms of the Air," by Adolf A. Berle, Jr., *Harper's Magazine*, March, 1945.

other three freedoms: (1) To discharge traffic carried between the country of the plane's origin and the country of its landing; (2) to pick up traffic for the return journey; (3) in the case of air routes crossing several countries, to pick up and put down traffic along the way, provided a frontier intervenes between the points of embarkation and discharge. (Nearly all countries reserve "cabotage"—that is, the right to carry wholly domestic traffic within their own frontiers, and nobody at Chicago was ready to advocate freedom to the point of obliterating frontiers so far as air transport was concerned.)

How do these freedoms work out in regard, for instance, to air routes between the United States and Europe? With only the first two guaranteed, American planes could not cross the Atlantic for commercial purposes unless agreements were negotiated with all the countries to which they wished to fly. But if mutual arrangements had been made with, say, the Netherlands, the air route could include refueling stops in Newfoundland and Scotland. With the third and fourth freedoms added, American airlines could extend to any country in Europe that was a party to the international convention, dropping passengers and freight en route. But they could not pick up in England passengers bound for France and there take on a new load to be put down in Switzerland. Without this privilege, embodied in the fifth freedom, long lines would not be profitable, for much of the time planes would have to fly half empty.

The American delegation at Chicago pressed for the adoption of all five freedoms with no limitations on the number of schedules flown by any airline other than those imposed by their own governments. The British maintained that a convention including the third and fourth freedoms must provide for the elimination of uneconomic competi-

tion. This, they considered, required agreement on methods of determining frequencies ("total services of all countries operating on an international route"), of allocating such frequencies between different countries on the basis of the traffic originated in each, and of fixing of fares and freight rates. To carry out these tasks they proposed the creation of an international authority.

As for the fifth freedom, the British view was that it should be subject to negotiations with the countries along each route. The facts of political geography, it is clear, would make its blanket endorsement of greater value to the United States than to European countries. American planes arriving in western Europe would, under the fifth freedom, be able to share in the heavy traffic crossing Europe's innumerable frontiers. Every one or two hundred miles they could alight and replenish their pay loads. European planes reaching the United States would gain no comparable advantage, since they would be entering a vast expanse of sky in which "cabotage" was reserved for American airlines. If their route was southwest, they would have a 2000 mile stretch in which they could take on only passengers bound for Mexico or beyond; if it was west they would face 3000 miles with very little pay load. The result would be that European transatlantic airlines could not profitably fly beyond the eastern seaboard while their American competitors could take all Europe for their province, and thus would probably be in a position to quote lower rates for the transocean hop.

The qualifications which the British sought to attach to the third, fourth and fifth freedoms were obviously inspired by the belief that, under conditions of unrestricted competition, American airlines would be able to put theirs out of business. The backing they received from most Euro-

pean countries suggests that their fears were widely shared. American airlines, it must be remembered, are ready to fly all over the world once the government gives them a green light. Air transport in this country has been vastly expanded during the war while in Europe it has been practically grounded. Britain has continued to operate its Empire routes with a job lot of planes, but up to 1944 all work on new models was suspended. By agreement with the United States, Britain aircraft factories concentrated their efforts on the production of war planes, leaving the building and development of transport types to America. There were good reasons for this arrangement in terms of wartime economics but that it has meant a stiff handicap in the post-war civil aviation race is undeniable.

Another reason Britain and many European countries desire to regulate competition is their experience during the interwar period—an experience not shared by the United States. Prior to the present war American international air transport was the *de facto* monopoly of a single company along most of whose routes there was little or no competition. In Europe, on the other hand, economic rivalries were superheated by considerations of political prestige and national defense. The result was competitive subsidization. A postwar free-for-all traffic scramble would, it is feared, mean the return of this evil in an exaggerated form. In the United States, the British like to point out, the Civil Aeronautics Board passes on all applications to fly routes and keeps competition within bounds. "The airlines of the United States are indeed the admiration of the world," remarked Lord Swinton, head of the British delegation at Chicago, in reporting to the House of Lords. "If those airlines are able to run in those numbers under such a system of control, then it really cannot be contended with any

reason that a similar system of control applied internationally in Europe or Asia would stop the aeroplanes from flying." *

There are two replies to this argument. In the first place, it is objected, control of the operations of national airlines by an international C.A.B. would involve a surrender of national sovereignty. Here is another case where nations may have to chose between having their cake and eating it, between untrammeled national sovereignty and freedom to engage in international air traffic. In *Collier's* magazine for April 21, 1945, Commander Harold E. Stassen, former governor of Minnesota, wrote:

> Pause and contemplate what the situation as to airways and railroads would be in our country if there were no agreement among the forty-eight states, if states could establish any airline or railroad between them they wished, could subsidize lines in conflict with one another and change rates at will and regulate or not regulate as they desired. We know it would be chaos confounded. And chaos will be the word to describe world commercial aviation in a few years time if the principle of absolute nationalistic sovereignty is followed.

Commander Stassen went on to suggest that the only workable alternative to the development of this situation was the creation of an international authority. The difficulty is—and this is the second American objection to the plan—that such a body could not be expected to function in the manner of its American prototype whose members, operating under a definite law, are responsible to the whole nation and not to any section. In an international body the members would inevitably be representatives of their nations with primary loyalty to their own states rather than

* *The Times*, Jan. 7, 1945.

to the collective interest. Thus the authority would arrive at its decisions not judicially but rather by negotiation and bargaining among its members.

For a long time to come, however, it seems probable that the division of international air traffic among the nations, in any case, will be settled by negotiation in one form or another. This is so because the leading powers all consider that the maintenance of their civil aviation is a necessary adjunct to their security and consequently they are not prepared to allow its fate to be determined solely on economic grounds. According to Dr. Edward Warner, vice-chairman of the Civil Aeronautics Board, the characteristic American view is that security is a military problem and that there is little connection between military aviation and international air transport.* Certainly the specialization of aircraft for specific tasks means that the danger of an overnight transformation of a fleet of transports into a striking air force, so much discussed in the disarmament conferences of the interwar era, is no longer serious. But in this war we have seen all sorts of new applications of air transport to military purposes. Fully equipped divisions have been landed by planes and gliders behind enemy lines; in Burma, a large-scale campaign was fought successfully in defiance of all previous theories of logistics, thanks to air-borne supplies. When the aerial history of the war comes to be written, the transport commands may well rank equally in achievement with the fighter and bomber commands.

There is another point: a strong civil aviation provides a reserve of productive capacity and personnel for military aviation. Machines and mechanics employed in building

* *Foreign Affairs*, Apr., 1945.

airlines can fairly readily be converted to the task of constructing warplanes; pilots, navigators and ground crews can switch from the employments of peace to the tasks of war. Spokesmen of the American armed services do not agree on this question with Dr. Warner. "There can be no doubt," said Secretary of War Stimson in a letter to Chairman Bailey of the Senate Commerce Committee, "that a powerful up-to-date air force is a prerequisite of adequate national defense. . . . Long-range commercial aircraft and other equipment and facilities necessary to conduct safe and efficient foreign civil air transport operations are similar to the equipment and facilities necessary to conduct the long-range operations of military aircraft and air transport. The development, therefore, of new and improved types of commercial equipment, facilities and techniques is directly beneficial to the development of their military counterparts." *

Other nations are just as eager as the United States to buttress their military aviation in this way. Until the world achieves real collective security, defense considerations will continue to take precedence over economic considerations and no international arrangements will be concluded that will make it possible for any one nation to become predominant in air transport. It is true that, in addition to the "Two Freedoms" convention, which has proved widely acceptable, a "Five Freedoms" agreement was drawn up at Chicago and has since been ratified by a number of small powers.** But Britain and France, which with their empires

* *Wall Street Journal*, March 24, 1945.

** Up to June 25, 1945, the following nations had accepted the "Five Freedoms" agreement: Afghanistan, China, El Salvador, Ethiopia, Liberia, the United States, Turkey (with reservation on the Fifth Freedom), the Netherlands (first Four Freedoms only). Nations accepting the "Two Freedoms" agreement include: Canada, Czechoslovakia, India, New Zealand, Norway, Poland, and Great Britain.

control so much air space, and the British Dominions are unlikely to adhere to this instrument unless it is modified in a way that will assure to them an equitable share of the total traffic. As for Russia, which decided at the last minute to stay away from Chicago, it has yet to give any hint of the terms on which it is prepared to open its vast skies to the air carriers of other nations.

A White Paper issued in March, 1945, gave the British Government's postwar plans for developing air transport. The existing "chosen instrument," the British Overseas Airways Corporation which now monopolizes international traffic, will in future operate the Empire and transatlantic routes in close cooperation with Dominion airlines. It is also to have a minority interest in two other companies, one of which, with the railroads the chief shareholders, will handle internal and continental traffic; the other, dominated by shipping companies trading with South America, is to be given the concession for that part of the world. In negotiating reciprocal arrangements which will be necessary before some of these routes can be opened, the British government proposes to stipulate the principles it expounded at Chicago for reducing "wasteful competitive practices" and controling subsidies with the ultimate object of eliminating them altogether. "It is the intention," the White Paper adds, "that the agreed schedule of services on European routes and the South American service should be operated without subsidy; provided always that services which the Government regard as essential to maintain are not faced with highly subsidized competition."

It appears, therefore, that in the early postwar years the alternative to an international regulatory authority will be not the American conception of open competition but a reversion to prewar bilateral bargaining. One can only hope devoutly that the involved maneuverings and dog-in-

the-manger tactics of the prewar era will not be repeated. But, at best, reciprocal deals are apt to be time consuming and to create rigidities unfavorable to development. Nor, under this system, are we likely to see the rapid reduction of costs that is necessary if the potentialities of air transport are to be fully realized.

Some promise for the future is offered by the agreement to set up an international aeronautical organization, which was the Chicago Conference's outstanding achievement. Its main functions are to be technical—the development of navigation rules, the standardization of safety practices, the regulation of operating methods. But its interim council has been authorized to study the economic problems of air transport including the planning of routes and schedules, subsidies and tariffs. Its permanent council will be empowered, on request of any contracting state, to investigate any situation presenting avoidable obstacles to the development of air navigation. Since the constitution of this organization may be amended by a two-thirds vote, there is hope that it may evolve into an institution capable of legislating for international air transport. After a few years, with civil aviation back on its feet, Europe may regard competition with a less jaundiced eye; while America, with the odds in its favor shortened, may be more willing to discuss the international application of the economic rules which it has found necessary to apply in interstate commerce. Then international organization may come into its own.

TROUBLED SEAS

Although super-enthusiasts for aviation sometimes suggest that planes have made ships obsolete, it seems likely that for a very long time to come most of the world's trade will move by sea. Planes will carry the first-class mail and,

on heavily traveled routes, they should be able to reduce fares to a point that will give them the major part of the passenger trade. But when it comes to cargo, particularly of a bulky nature, there seems little chance of bringing air costs within sight of sea costs. And since merchant shipping will continue to play a great part both in national economy and in national defense, the struggle among the powers to gain what they regard as their "fair share" of the business is apt to be renewed.

In a speech to the House of Lords on October 4, 1944, Lord Leathers, Minister of War Transport, laid down the following principles of British postwar shipping policy:

> Our Merchant Navy must be at least as large as before the war and as much bigger as British enterprise and efficiency can make it in a world from which, it is to be hoped, artificial obstacles to trade will have at least partially been removed.

Saying that the British Government was anxious to collaborate with others in establishing economic conditions for world shipping, he added: "Before the war our chief enemies all subsidized their ships so that enemy owners were often able to compete against us with fast merchant ships built with state aid and with a view to ultimate wartime employment." If he had been less tactful, he might have gone on to remind his audience that Britain's chief ally, the United States, had adopted exactly the same policy and showed no sign of abandoning it after the war.

The late President Roosevelt once declared: "The preeminence of American shipping—so grimly necessary now —should be maintained after victory is won." Translating this statement of policy into figures, Admiral Emory S. Land, chief of the Maritime Commission, has proposed that the United States should aim at carrying 50 per cent of its

ship-borne trade. This is a far greater proportion than is likely to accrue to American shipping in "a freely competitive economy." It can be attained only by granting shipowners heavy subsidies and subsidies are just as much a weapon of economic warfare as tariffs, quotas, exchange controls, and other restrictive devices.

Wartime production has given America a merchant fleet greater than the combined fleets of all other countries; it will enter the peace with something like two-thirds of the world's total tonnage. This predominance, however, affords no guarantee of permanent superiority. During the last war the United States also built a huge merchant navy but it could not hold its position after peace came. In the seventeen years ending July 1, 1939, while world tonnage increased 6.4 per cent, that under the American flag declined 32.5 per cent. It then consisted of 1296 ships totaling 11,000,000 dead weight tons, of which 6,100,000 were employed in domestic trades (protected by "cabotage" laws) and 2,200,000 laid up. The 2,700,000 tons engaged in foreign commerce carried about one-quarter of American imports and exports.

Even this proportion was possible only because the Merchant Marine Act of 1936 had administered a powerful injection of subsidies into the veins of the stricken American shipping industry. The purpose of this legislation, which was justified by references to military as well as economic needs, was to insure that "a substantial proportion of the water-borne export and import foreign commerce of the United States" should be carried in vessels "owned and operated under the United States flag." The subsidies it provided took three forms: (a) "Construction differentials," enabling American operators to buy American-built ships at the same price they would pay to lower-cost for-

eign yards. Up to the end of 1943, $89,000,000 had been paid out for this purpose. (b) "Operating differentials," filling the gap between American and foreign operating costs. These cost the taxpayers $51,000,000 to the end of 1943. (c) Countervailing subsidies to match those granted by other nations to their shipping. As yet there has been no occasion to use this economic weapon; it is a big stick held in reserve in case other nations seek to imitate the American subsidy policy.

In any event, since the achievement of Admiral Land's goal involves tripling prewar tonnage engaged in foreign trade, the postwar burden on the American taxpayer will grow. Ship construction costs in this country are estimated at 100 per cent above those abroad; operating costs are about 50 per cent higher. It is argued that subsidy payments are worthwhile as a premium for security and insignificant in comparison to the cost of building the ships needed to win the war. Critics reply that undermining the peace is a poor way to promote security. Lewis W. Douglas, Deputy Administrator of War Shipping from May, 1942, to April, 1944, has written: "A policy of subsidizing a huge American merchant marine, built as a product of war itself, will inevitably be a violent blow to many of the nations associated with us. . . . By itself it must create tensions between governments. It is another manifestation of that type of extreme nationalism that has so plagued us throughout the last quarter of a century." *

As Mr. Douglas pointed out, America's "economic life derives little nourishment from the carrying of overseas traffic," but it is essential to the vitality of Britain and such nations as Norway, Denmark and Holland. Before the war,

* *Atlantic Monthly*, April, 1945.

as we saw in Chapter 7, some 20 per cent of Britain's excess of imports over exports was financed by shipping earnings. If subsidized American competition reduces receipts from this source, the pressure on Britain to curtail imports or to adopt discriminatory methods of pushing exports will be all the greater.

But, Americans may ask, if we rule out subsidies, what will happen to our vast war-built fleet? The future of the thousands of ships constructed since Pearl Harbor presents a problem under any circumstances, for fulfillment of the Land program will not find employment for more than a minority of them. V-J Day found the United States with nearly 40,000,000 tons of dry-cargo boats, over 80 per cent of them owned by the government. More than half this tonnage was in Liberty ships—10,000 ton freighters rated at 11 knots. Designed for rapid mass production, these Liberties have performed nobly in the war but they are too slow for regularly scheduled services and too big for the tramp trades. Available tonnage of the faster Victory and C-type boats can satisfy all American needs for general cargo vessels and still leave a surplus.

How about selling Liberties abroad? Will not Britain, France, Holland, Denmark, Norway, be delighted at an opportunity to restore their depleted fleets? Actually, sales may prove difficult except at bargain-basement rates, for shipowners in these countries want the most modern and economical tonnage and regard Liberties as non-competitive in normal times. The British are not even likely to be eager bidders for Victories and C-types, since they are building faster general cargo ships of their own and their major need, in restoring a well-balanced fleet, is for medium liners, refrigerator ships, and other special types.

Some spokesmen for the American shipping industry

have urged Congress to bar ship sales, except of Liberties and tankers, to non-citizens for two years after the war. Such a policy would give America a large part of the carrying trade during the profitable transitional period. But it would also mean that other countries would intensify shipbuilding during that period and at the end of it might have little use for second-hand American tonnage. The result would be to plague the world with an unwieldy shipping surplus. Seeking to avoid such a situation, W. L. Clayton, now Assistant Secretary of State and then Surplus War Property Administrator, suggested that part of the United States surplus fleet should be maintained as an emergency reserve and the rest sold outright to foreign nations at prices which would prove more attractive to them than building new ships.* Some shipping men are said to favor this proposal, since "by passing on to the British or other maritime nations some of its surplus ships, this country might be able to avoid trying to compete indefinitely in a 17 knot trade with 10–12 knot Liberties or even the faster 15 knot Victories." **

Good observers, however, believe that Congress will refuse to allow ships to be sold, especially to foreigners, at a fraction of their cost. Yet only sharply slashed prices will move so large a surplus. And, if this difficulty is overcome, we shall have the strange spectacle of Uncle Sam with one hand endowing American shipowners with large sums to combat competition, with the other increasing that competition by throwing vast quantities of cheap tonnage on the world market. Naturally, this will lead to a demand for still larger subsidies.

* Statement to Foreign Shipping Sub-Committee of the House of Representatives Committee on Postwar Economic Policy and Planning. New York *Times*, Oct. 28, 1944.

** *Barrons*, Jan. 22, 1945.

The situation appears to call for an international agreement which not only will cover the disposal of surplus tonnage but provide for a permanent organization to regulate international shipping. This objective might be achieved by a continuation, with suitable modifications, of the agreement governing the pooling and control of the merchant fleets of the United Nations. A United Maritime Council was set up under this agreement with the task of utilizing the pooled fleets to the best advantage, while provision was made for a uniform system of freight charges for the same or similar services, and for allocation of ships without regard to financial considerations. Further, the contracting Governments agreed:

> not to release from control any ships under their authority or permit them to be employed in any non-essential cargo, unless the total overall tonnage is in excess of the total overall requirements; and then only in accordance with a mutually acceptable formula which shall not discriminate against the commercial shipping interests of any nation and shall extend to all contracting Governments an equitable opportunity for their respective tonnages to engage in commercial trades.

This agreement, of course, was designed to meet a shortage of shipping and to prevent the inflation of freight charges. For postwar purposes it would have to be extended to cover conditions of surplus and to meet the danger of undue deflation which, taking the form of cutthroat competition, is likely to lead to competitive subsidies. This would require the fixing of freights at levels corresponding to average costs and, perhaps, an allocation of national quotas on some routes to prevent half-empty ships crowding each other. Provision should also be made for a charter of minimum wages and conditions for seamen, a step which would do much to remove the American

complaint of competition through cheap foreign labor. Finally, the contracting powers should agree to pool all shipping in the event of another war and meanwhile share the cost of maintaining as an inactive reserve vessels deemed to be surplus to world requirements. This would meet the security argument and make possible a limitation of subsidies, if not their complete elimination.

International control on these lines, it may be objected, is incompatible with competitive free enterprise. But, in the realm of shipping, that is out of the window as long as nations, including the most devout champion of competitive free enterprise, resort to artificial stimulants. Moreover, shipowners of all nations have long sought to circumvent the free market by agreements to fix and maintain passenger and freight rates. When an industry is both subsidized and cartelized it is high time for a public authority to step in and prevent exploitation of consumers. If we cannot return to real free trade in shipping—and any realistic observer of the situation must admit the odds are overwhelmingly against such a development—the only safe alternative appears to be an International Commerce Commission representing all the maritime nations.

CHAPTER 12

The Path Through Bretton Woods

WHEN John Doe of New York sells $1000 of hats to a store in Seattle, he may check on his customer's credit standing but he does not worry about the kind of money he will be paid; he knows he will get dollars which are just as much legal tender on the Atlantic seaboard as on the Pacific coast. When Mr. Doe fills an order for a London store, however, he has to consider not merely the customer's credit but Britain's credit; he becomes involved in foreign exchange problems. Suppose he is paid by a ninety-day bill for £250 drawn on a British bank. On the day he ships the goods, one pound is worth $4.00 and the sterling bill $1000. But what if the exchange rate slumps to $3.00 before the bill falls due? He will receive only $750 and will be out of profit, if not out of pocket.

The American film industry, which has an annual export trade of $175,000,000, is very much afraid it will be up against this kind of problem after the war. Failure of the United Nations to work out a plan for monetary and exchange stabilization would confront it with a double jeopardy—the threat of blocked balances and of currency depreciation. "There's already talk," according to *Variety*, the industry's trade paper, "of reducing the value of the English pound sterling from $4.00 to $3.00. This would mean an automatic decline in the value of United States

film exports to Britain of some $20,000,000 to $25,000,000 annually even if rental and British theater receipts are maintained at wartime levels." * Other American industries, hoping to build up their export trade, and American firms, which have or would like to establish branch factories in other countries, are also deeply concerned about the future state of the international exchanges. Unstable currencies can bring to nought the smartest deals and the most carefully planned investments.

In the years before 1914, when the gold standard was almost universally accepted, nobody bothered about such problems, except professional exchange and commodity dealers who sought their profits in variations calculated in fractions of cents. As long as the pound, the franc, the mark and so on were freely convertible into gold at a fixed rate, their exchange ratios could move only within narrow limits determined by the cost of shipping gold from one country to another. The first world war smashed this system and it was never fully restored. Britain, after 1918, adopted the policy of putting back sterling on gold at the prewar rate and, six and a half years after the Armistice, succeeded to its subsequent bitter regret. For the effort involved sharp deflation at home and, all through the twenties, jobless British workers paid the price. It was a short-lived success too. In 1931, sterling fell, or was pushed, off the gold standard, dragging with it many other currencies. Countries for which Britain was the chief market saw themselves compelled either to cut their export prices to a competitive level, or to hitch their currency wagons to the British star. For many the second alternative proved politically and economically more feasible. Within two years the

* March 7, 1945.

United States itself followed suit. It was in no danger of seeing its massive gold reserves drained away, but its producers, and particularly its farmers, were feeling the strain of competition with goods sold in terms of depreciated currencies.

This retreat from the gold standard probably did help considerably to alleviate the world depression. But it also gave foreign traders many new headaches, especially before America, Britain and France signed the Tripartite Agreement of 1936 making possible a *de facto* stabilization of their currencies. Meanwhile, a new menace to international stability and trade had appeared. Germany, preparing for war, was bent on building up its stocks of strategic materials and to this end was using currency manipulation as an offensive weapon. Nominally, the mark was never depreciated and was thus worth more in terms of dollars and pounds than before 1931. But this full-value mark was used only for transactions where a high exchange rate benefited Germany—for instance, in buying up defaulted German bonds. Exports and the tourist industry were subsidized by making cheap marks available. Doctors Schacht and Funk promoted bilateral trade agreements with countries that depended heavily on the German market, forcing them to accept blocked mark credits in return for their wheat, cotton, metals, etc. The value of such blocked marks varied according to the purpose for which they were used and the bargaining power of the country owning them.

With malevolent ingenuity the Nazis perfected the technique of exploiting a debtor position. Small countries were the worst sufferers but the stronger nations found their trade undermined in neutral markets while they experienced mental and moral shock from the discovery that the creditor's accustomed bludgeon had become a broken reed.

Actually, the advantage gained by the Germans was temporary, although it lasted long enough to serve their purposes. Their methods were imitated by other countries as a means of defense so that in the years immediately preceding the outbreak of war there was a growing deterioration in trade relations. Barter arrangements, blocked credits, multiple currencies and import quotas proliferated, choking up the channels of trade. International economic relations were fast reverting to a primitive state of barter.

With the outbreak of war all the belligerents were forced to adopt rigid exchange controls, so as to conserve their stocks of gold and foreign currencies, and to mold foreign trade to the pattern of war economy. Nowhere in the world today is there freedom of the exchanges; nor can it be fully restored until an international balance of trade is reestablished. But if there is to be a growth of world prosperity, if the labor-saving advantages of international commerce are to be realized, multilateral exchanges must operate again, permitting the sale of goods in any country to finance purchases in any other. This is as important for a state with a totally planned economy, such as Russia, as it is for one with relatively free enterprise, such as America. Russia, for instance, needs huge amounts of the machinery which manufacturers in the United States are anxious to sell. Not very much business could be done on a barter basis for, at present, Russia has relatively few things to export which America wants. But once Russian production is restored, other nations will be eager customers for its foodstuffs and raw materials provided that they, in turn, can sell their wares to America. Then the dollars they earn will flow to Russia and thence back to the United States.

No country in the world has a bigger stake than America in rooting out the legacy of Schachtism, for no other is in

as poor a position to make use of the weapons of economic warfare. In normal times, it has a net export balance in its trade with most other states so that barter deals would tend to reduce its total volume of exports. Again, as the one nation with a currency firmly attached to gold, it cannot play the game of competitive currency depreciation, for other countries would not hesitate to adjust the value of their currencies to the dollar price for gold. The chief beneficiaries of a new American devaluation would be foreign gold producers, who would be able to command more American goods per ounce of the metal.

Although often accused of "crackpot internationalism," the Roosevelt Administration held very firmly to its purpose of clearing obstacles from the paths of world trade, realizing better than its critics how American interests might suffer if the drift toward economic nationalism were not arrested. Particularly in the monetary field it foresaw that, in the absence of any common plan, there would be grave danger of conflicts after the war as nations sought unilateral solutions to their individual problems. Back in 1942, therefore, the American Treasury began preparing plans for the international conference which finally assembled at Bretton Woods in August, 1944. From this meeting emerged blueprints for two new world institutions—the International Bank for Reconstruction and Development, and the International Monetary Fund.

The purpose of the Bank is to provide long-term loans for constructive projects which private bankers are unable to finance on reasonable terms. It will be authorized to make direct loans but probably will function more frequently as a guarantee institution. Thus it will provide internationally a service similar to that of the Federal Housing Authority, which has brought stability and order to the

home mortgage field by providing guarantees for loans which conform to its standards. As the Bank's liabilities, direct or indirect, are to be limited to the amount of its authorized capital—$10 billion contributed by all participants—any loan it guarantees will be a gilt-edged security. Moreover all loans not made to member countries themselves must be fully backed by the government of the territory in which the project is situated or by a central bank. Finally each borrower, in addition to interest, must pay an insurance premium of 1 to 1½ per cent from which a reserve fund will be accumulated. This method of pooling risks will, it is hoped, make possible the financing of large-scale development schemes, such as the development of the huge potential hydro-electric power of the Yangtse River in China, which will raise the productivity of whole areas.

It is not easy to summarize so briefly the purposes, functions, and mechanisms of the second Bretton Woods institution—the International Monetary Fund. Essentially the plan is to provide a reservoir of national currencies from which the central banks or treasuries of member countries can draw in order to balance their international trade accounts. Suppose, for instance, British payments for foreign goods and services are outrunning receipts, perhaps because an important customer for British goods has suffered a bad harvest. As a result British demands for foreign currencies exceed foreign demands for sterling and the exchange value of the latter tends to fall. Under the gold standard system, it would be necessary for Britain to ship bullion abroad to meet this situation and, at the same time, to discourage domestic consumption (and therefore imports) by raising interest rates or other deflationary measures. With the Fund in operation, however, the Bank of England will be able to deposit sterling notes in the pool and take out an equiva-

lent amount of dollars, pesos, francs or whatever currency is required. This privilege is subject to limitations, but within those limitations, it may be exercised without interference by the management of the Fund. However, when a member "borrows" up to its quota or fails within a reasonable period to repay its loan, it may be called upon to pay penalty rates of interest and the Fund may investigate the causes of, and advise on a remedy for, the unbalanced trade position indicated by its continued need for foreign currencies.

Beyond provision of an emergency pool of foreign exchange, the Fund will make possible constant international consultation on exchange problems. One of its early duties will be to build, in collaboration with member countries, the postwar structure of exchange rates. According to the agreement, members will establish their currencies at a fixed ratio to gold but, it is recognized, no country can undertake to maintain such a ratio permanently without regard to changing conditions. Hence the statutes permit members to change the gold value of their currencies by not more than 10 per cent after consultation with the Fund. Further changes are subject to approval by the Fund which, however, is bound to concur if it finds the step necessary to correct "a fundamental disequilibrium." *

Before it won approval in Congress, the Monetary Fund was subjected not only to heavy sniping from nationalist foxholes but to a long and weighty barrage of criticism from banking board rooms. Nationalist objections, which tended to follow such routine formulas as "Uncle Sam is

* "Fundamental disequilibrium" might manifest itself by a steady drain of gold or foreign exchange reserves; or it might result in depression in one country while others were flourishing, as in Britain in the years 1925–29 when the whole internal economy was intolerably strained by an effort to maintain sterling on an overvalued basis.

being played for a sucker again" need not, perhaps, be taken very seriously. Bankers' objections, however, are worth discussion if only for the light they throw on problems for which the Bretton Woods plan provides a partial solution. Most distressing to the orthodox financial mind was the fact that members of the Fund would be able to help themselves to what, in effect, was short-term credit. This feature, it was declared, introduced "a method of lending which is novel and contrary to accepted credit principles. . . . The borrowing would be subject to certain limitations but with no stipulation that the loans would be good loans or . . . that the loans should be based on prior consideration of the economic conditions and prospects of the borrowing country." *

In the view of many bankers, the objectives of the fund could much better be attained by making stabilization loans available through the International Bank. No country could then claim financial assistance as a right but would have to prove its "credit-worthiness." Insofar as these loans were in terms of dollars, they would, under the Bank's statutes, have to be approved by the United States which would thus be in a position to insist that borrowing countries put "their houses in order." Without the safeguard of such sound banking practice, foreign nations, it is feared, would use the easy money available from the Fund to support reckless spending at home, budget deficits, and inflationary orgies. "The Fund plan," says that faithful mouthpiece of ultraconservative finance, the *Wall Street Journal*, "consists almost wholly of means by which member nations may, in their international trading, escape the logical consequences of internal fiscal disorder." **

* Report published by the American Bankers Association, Feb., 1945.
** Apr. 6, 1945.

According to this school of thought, after a year or two all "sound" currencies will be withdrawn from the Fund and replaced by "unsound ones." Of course this could happen only if countries with "sound" currencies, including the United States, allowed their balance of payments to remain lopsided by maintaining a large excess of exports over imports and failing to fill the gap with foreign loans. To meet such a situation, should it arise, the plan provides for the rationing of "scarce currencies." That is to say, if the Fund ran out of dollars, other countries would be allowed to take special measures to check imports of American goods, unless the United States chose to increase its contribution to the Fund. An increase would require Congressional approval but conservatives fear that rationing would be such a shock to the export trade that the pressure to "throw good money after bad" would be irresistible. But, Fund or no Fund, a crisis of this nature is likely to arise if America continues to sell abroad without buying. Either the excess of exports will be balanced by loans or other countries will refuse to take American goods.

Another objection to the Fund is that, once it has been sucked dry of dollars, other countries will revert to currency depreciation and similar practices. The late Leon Fraser, President of the First National Bank of New York, giving evidence before the House Banking and Currency Committee, condemned the Fund as "a grant-in-aid to Britain" which would enjoy advantages from it relative to the disadvantages suffered by the United States. And in any event, he added, the British would undertake "what we call economic warfare but what they call economic necessity." * Mr. Fraser, apparently, put little trust in the pledges

* New York *Times*, March 23, 1945.

which all members of the Fund must give, to abstain from the use of exchange controls after a transitional period covering reconversion and reorganization. Nor was he impressed by the safeguards with which future currency depreciation was hedged around. As a student of international affairs he might, however, have given more weight to the fact that for all trading countries exchange freedom and stability is a goal likely to be abandoned only in desperation. For Britain, certainly, currency depreciation is a two-edged weapon, for while it may, temporarily, stimulate exports, it also increases the price of imports. Since Britain lives on imports, the extent to which it can afford to inhibit them is very limited.

American bankers opposed Bretton Woods because they thought that the end in view—monetary stability—could be better achieved by more orthodox means. They believed that the plan reduced the bargaining value of American credit which, to their minds, should be extended only to nations prepared to adopt "sound" internal and external economic policies. Regarding with alarm the universal trend toward collectivism, they hoped that Britain, at least, might be weaned on a diet of dollars from its growing enthusiasm for economic planning. British reactions to Bretton Woods suggest that such hopes are poorly founded, for there opposition is based on the belief that the plan ties Britain to America's apron strings. And, while critics here blasted the International Monetary Fund for encouraging fiscal laxity, many Britons damned it as an intolerably rigid scheme designed to encase them in the gold-plated straitjacket from which they had escaped with difficulty in 1931.

Toward the end of 1944 I had many discussions on this subject with British economists, businessmen, members of Parliament and government officials. I was told that so much

opposition had developed that the government had dropped the idea of seeking early ratification of the Bretton Woods Agreement and was waiting to see how it would fare in Congress. The case for the opposition was put to me in the following terms:

America seems to regard exchange stability as an end in itself. We are much more concerned about the stability of employment and production and therefore do not want any monetary arrangement which may involve us in external depressions. America is compelled to find outlets for its gigantic production in export markets because it is unwilling to adopt full employment policies of the kind that will expand domestic consumption. But the more it projects itself into foreign trade, the more will its internal instability be liable to infect the economies of other countries. For any slump in the United States will be followed by shrinking imports, shortage of dollars, and the balancing of world trade at a lower level. If sterling is tightly pegged to the dollar, we shall be forced to take deflationary measures whenever dollars become scarce and our full employment plans will be wrecked. We can only hope that Congress will fail to ratify the agreement, for otherwise it will be very difficult for us to reject it. Presumably if the American bankers succeed in killing or mutilating the plan, the United States will return to a gold exchange standard, with a fixed gold content for the dollar. We would then be free to set the sterling dollar exchange rate at whatever level seemed appropriate and to alter it whenever conditions indicated that a change would be beneficial. If America considered the level too low and devaluated in retaliation, the resulting addition to the dollar price of gold would stimulate the flow of gold into the United States and set counter-deflationary forces in motion.

This statement, admittedly, represents the view of a minority, though an influential one. The official position is that Bretton Woods achieved a fair compromise between the need for some degree of stability in the foreign exchanges and Britain's requirement of reasonable freedom of action. But it has been necessary for government spokesmen to assure the public that membership in the International Fund will not mean putting sterling back on the gold standard. "With negligible exceptions," Dr. Alvin H. Hansen has written, "the British public is through with the idea that the internal economy must revolve around a fixed exchange rate. They are now committed to the opposite program of adjusting the exchange rate to the requirements set by the internal level of prices, wages and incomes." * Lord Keynes, defending Bretton Woods in the House of Lords, told his fellow peers that gold already had been "dethroned" in Britain; the agreement "not merely confirms this dethronement but approves it." This, perhaps, overstates the situation. It might be more accurate to say that the Monetary Fund will give gold back its crown but as a constitutional monarch with very limited powers. So far as the British are concerned, that carries the restoration quite far enough. They are no more likely to be persuaded by American bankers that gold should be king by divine right than they are to depose George VI in favor of a Stuart.

American opponents of the Bretton Woods Agreements, as we have seen, put little faith in the collateral pledges which members of the Fund and Bank must give renouncing restrictive and discriminatory practices. It is precisely these pledges that the more extreme British critics consider

* *America's Role in the World Economy*, p. 50 (Norton, 1945).

as the most objectionable feature of the plan. They believe that a return to universal inter-convertibility of national currencies and to multilateral trading is contrary to British interests unless accompanied by a definite pact between the big industrial powers to maintain full employment. Failing that, they want Britain to be free to discriminate, to play the Schachtian game in a gentlemanly way, to maintain or enlarge "the sterling area," and to make bilateral trade agreements with individual countries or preferential treaties with regional groups of countries. Their program, however, is unlikely to command strong support now that the United States appears increasingly ready for international cooperation. Spokesmen for both the Conservative and Labor parties told me that they considered such policies most undesirable and dangerous. And no one has denounced the "bilateral boys" more powerfully than the man conservative Americans often regard as the fountainhead of British economic heresies—Lord Keynes. In a speech in the House of Lords on May 23, 1944, he emphasized strongly the necessity for inter-convertibility of national currencies. Then he added:

> To suppose that a system of bilaterial and barter agreements, with no one who owns sterling knowing just what he can do with it—to suppose that this is the best way of encouraging the Dominions to center their financial system on London, seems to me pretty near frenzy. As a technique of little Englandism, adopted as a last resort when all else has failed us, with this small country driven to autarchy, keeping itself to itself in a harsh and unfriendly world, it might make more sense. But those who talk this way, on the expectation that the rest of the Commonwealth will throw in their lot on these lines and cut their free commercial relations with the rest of the world, can have very little idea how this Empire has grown or by what means it can be sustained.

In the transitional period after the war the Bretton Woods institutions will meet many difficulties but their really crucial tests will come later. Many countries eligible for membership, particularly the Latin American group, are at present well supplied with foreign exchange and will probably have little occasion to draw on the Fund, though they may well seek loans from the Bank for long-range development. Those nations which have suffered most in the war, and face the task of rebuilding their commerce almost from scratch, will also need long- rather than short-term credits. Britain is in a category of its own. It has incurred through the war an alarming total of foreign debt and is anxious not to add to it except for projects which increase directly its possibilities of export. To keep the trade debit balance within bounds, import and foreign exchange licensing will have to continue for some years. Indeed, since the termination of Lend-lease, it has been evident that British controls would almost certainly have to be tightened, unless some other form of financial assistance could be arranged.*

Therein lies a danger of Anglo-American misunderstandings. Suppose American film companies are told that until further notice the Bank of England can spare only enough dollars to cover half their British earnings, or that American exporters of office machinery are given very limited import quotas. It is more than probable that the businessmen affected will grumble loudly: "Hasn't our good American money been risked in this Bretton Woods affair just so we shall be able to trade freely? How come then that Britain bars our goods or blocks payment for them?" British officials I talked to in London were concerned lest situations

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* See Chap. 15.

like this might create ill-will. Anxiously they expressed the hope that Americans would appreciate that they were forced to cut their coats according to their cloth, that to let down the bars on imports prematurely might put such pressure on sterling that no help from the Fund could prevent its drastic depreciation. To restore its trade position, Britain will need at least the five years' grace which the Bretton Woods plan allows for the continuance of emergency controls.

Whether Britain and other European countries will be able to throw away their economic crutches at the end of this period depends very much on what further steps are taken to raise the total volume of world trade. Bretton Woods offers no engine of perpetual motion; merely useful international machinery which needs to be geared to other machines if it is to function properly. It will not work for long if tariff builders start throwing monkey wrenches. And it can run smoothly only on a steady flow of consuming power. If any major market collapses, the machinery will begin to creak and slow down; if depression spreads throughout the world, it will probably stop altogether. That is why even the most ardent British supporters of the Bretton Woods institutions confess to some scepticism about their future, unless they are backed up by international collaboration to maintain full employment.

PART V. ONE ECONOMIC WORLD

CHAPTER 13

Full Employment

AT EVERY stage in this exploration of the postwar world we have found our compass swinging back toward the question of full employment, the magnetic north of the economic globe. If we are destined to alternate between boom and bust, international cooperation will prove extraordinarily difficult, perhaps impossible. The atmosphere of depression breeds the spirit of *sauve qui peut;* it atomizes mankind, encouraging the building of new barriers rather than the razing of old ones, the search for new weapons of economic warfare instead of economic disarmament. Peace and progress alike will be endangered unless means can be found to prevent catastrophic interruptions to production and trade.

In America, the future of private enterprise is very dark without a solution for the problem of mass unemployment. An increasing number of businessmen recognize this fact but still hesitate to indorse the need for government intervention to insure stability. They believe that central planning is incompatible with freedom and that, insofar as it succeeded, it would freeze economic life and make progress impossible. This argument assumes that stability must mean rigidity, but responsible planners in this country are aiming at a system which is flexible but not boundlessly elastic. They seek, it might be said, to replace our present roller-

coaster economy by a carousel on which the riders rise and fall within a controlled range. They assume room for free movement between the points where either inflation or deflation become cumulative.

When men like Secretary Wallace talk of 60,000,000 jobs they are using the figure symbolically; they do not regard it as an absolute which must be attained if disaster is to be averted. It will not be fatal if the number of employed persons varies between say, 55 and 60 million, or net national income between $160 and $170 billion. That would mean no more than healthy elasticity. What would be politically and economically devastating would be a fall in national income from $170 to $100 billion with a rise in unemployment from 2 to 18 millions. But unless some powerful device to check the descent can be brought into operation, a slump on that order within the next decade is not only possible but probable. For depressions, once under way, gather speed from their own momentum. The automatic brakes described by the free market theorists have, in practice, proved both feeble and slow in application. The average monthly number of unemployed workers fell from 1.9 million in 1929 to 13.3 in 1933.* How much further employment might have declined if the New Deal had not applied government brakes is anybody's guess.

It is not only the fact of depression but the fear of it with which we have to contend. That drives individuals and groups to seek their own private security in ways which add to the insecurity of all; to fence off islands of safety through restrictive business agreements, through rules limiting trade union entry, through special privileges obtained by political pressure. Security, opponents of planning tell

* American Federation of Labor estimates.

us, is a decadent ideal which if realized will kill individual initiative and create social stagnation. But there is nothing more deadening to enterprise than mass insecurity. Men are adventurous only when they feel their fate is in their own hands. Individuals can no more combat anything as amorphous and overwhelming as a world-wide depression than they can, single-handed, hold back the Mississippi in flood. Some people, of course, endeavor to keep their heads above water by pushing others under. More huddle together seeking relief by the organization of protest meetings, hunger marches, rent strikes, bonus demands. These are the negative actions of frightened people but the instinct toward collective remedies is sound. Only through government, however, can positive steps be taken, for only governments have the resources to check or, better still, prevent depressions. If they can prove their ability to do so, and remove from men's minds the fear of being submerged by forces beyond individual control, we may find that security, so far from quenching the flame of adventure, has rekindled it.

What is true of men is partly true of nations. Economic fear drives them to protective measures of a negative kind. They build and fortify walls to bar foreigners and their goods. Aware that depression is a highly contagious disease, they seek safety in quarantine. Sometimes, of course, nations resort to such actions with aggressive intentions but much more often they are adopted from motives of self-preservation. So nationalism and insecurity chase each other around a vicious circle. Until trade barriers are lowered, there can be little hope of sustained economic progress; it is equally true that the barriers will not come down and stay down without some assurance of world economic stability. It follows that, if the ideals of the Atlantic Charter

are to be realized, the leading industrial countries must adopt domestic policies aiming at full employment. Without that, no international agreements to reduce tariffs or stabilize exchanges will outlast the next depression. "When employment and business fall off," writes Dr. Alvin H. Hansen, "there inevitably ensues a struggle between countries to capture as large a share as possible of a dwindling trade. Scourged by unemployment, countries will seize whatever means of relief lie to hand. Unbalance in international accounts arises. Restrictive measures will be introduced. Thus import quotas, tariff abnormalities, competitive currency depreciation, and bilateralism return to plague us." *

Prosperity, like peace, is indivisible and an absolute condition of an international expansion of trade is a sustained demand for goods and services within those countries which have the power to influence significantly the economies of others. One of the most hopeful developments at the San Francisco Conference of the United Nations was the recognition accorded to this fact. Chapter IX of the Charter declares:

> Article 55. With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations . . . the United Nations shall promote: (A) Higher standards of living, full employment and conditions of economic and social progress and development. . . .
>
> Article 56. All members pledge themselves to take joint and separate action in cooperation with the organization for the achievement of the purposes set forth in Article 55.
>
> Article 60. Responsibility for the discharge of this function shall be vested in the General Assembly and, under the authority of the General Assembly, in the Economic and Social Council.

* *America's Role in the World Economy*, p. 180 (Norton, 1945).

Inclusion of "full employment" among the objectives of the Council was not achieved without opposition. The idea was sponsored in the Economic and Social Commission of the Conference by the Australian and New Zealand delegates, representatives of labor governments in countries which, because of their dependence on world exports for primary products, are peculiarly exposed to economic storms originating elsewhere. It won the support of Britain, Russia, India, and Mexico, but the United States delegates on the Commission at first objected to the clause. "Full employment," they declared, unless carefully qualified was too vague a goal and open to misinterpretation. Moreover, they argued, the obligation imposed on members to cooperate in promoting this objective suggested interference in domestic affairs—a suggestion which Congress would be likely to resent.

Actually, as was pointed out in the course of the discussions, the Council has no power to order members what to do. The Charter in fact expressly provides that, except in regard to the application of measures to maintain peace and suppress aggression, nothing in it "shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state." All the Council can do to promote full employment is to study the problem, to make recommendations to the membership at large, and to give advice to individual members who seek its assistance. But each government is free to decide for itself whether to follow the recommendations of the international body and the means by which this should be done. The provisions of the Charter, therefore, in no way impinge on national sovereignties. They do not attempt to bypass the regrettable but obvious fact that nations are not yet ready to submit what they consider to be their private business to

international judgment, however much the welfare of other peoples may be affected.

Who can define the borderline between internal and external economic affairs? Tariffs, subsidies, currency regulations, immigration laws, are all considered as of purely domestic concern, except to the extent that sovereign rights may be temporarily restricted by treaty. Fiscal, and monetary management are still regarded as under the exclusive authority of each state, although a rise in the rediscount rate in London or a new tax in France may lead to a panic in Montevideo and a fall in real estate values in Nebraska. The Economic and Social Council will provide an international forum where such inter-relationships can be studied, discussed, and highlighted. It can provide a means of informing and mobilizing public opinion throughout the world and thus bring moral pressure to bear on states that ignore their international responsibilities when formulating their national policies.

In the dangerous decade ahead economic power, like military power, will be largely concentrated in the hands of the Big Three—America, Britain and Russia. According to Secretary of Commerce Wallace, they may account for as much as 85 per cent of the world output of industrial goods. As sovereign states they insist on the sole right to decide how their power shall be employed, which puts the burden of responsibility for international economic progress squarely on their shoulders. The load, however, cannot be evenly divided between them. Russia's great and growing industry has two huge tasks to perform before it can become an important factor in world trade—the reconstruction of its war-devastated areas and the raising of the very low average standard of living in the U.S.S.R. For a good many years, therefore, Russia is likely to have a small ex-

portable surplus of industrial goods. It may, on the other hand, furnish a valuable market for foreign machinery, provided that credits can be arranged to span its period of recovery.

Among the smaller powers, France, Sweden, Holland, Belgium, and Canada can all contribute surpluses of industrial products to world trade, but their economic weight is insufficient to provide the leverage needed to raise world prosperity. Their strength can be usefully exerted only to supplement that of America and Britain. In the last analysis, indeed, the decisive factor will be the economic muscle of the United States, its 50 per cent share of the world's industrial capacity. Consequently, the index of American production will serve the world as a prosperity barometer. As long as it remains high, American capacity to consume and lend will keep world trade flowing in adequate volume. But if the level of production here falls, foreign countries will expect stormy weather. For a decline in American national income will inevitably result in a proportionately greater decline in imports. Traders the world over will shorten their commitments; producers will cut output.

Before the war, Britain was an even greater market than the United States and the restoration of its buying power will be a vital factor in world recovery. That power, as we have seen, is not likely to be weakened for a good many years by heavy unemployment, for restoration of wasted capital assets promises to provide an abundance of jobs. The limiting factor will be Britain's ability to pay for imports. Whatever foreign exchange it can earn by the sale of goods and services will undoubtedly flow back into world markets, but it cannot afford to buy more than it sells. Britain, therefore, is not entirely a free agent in developing full employment policies. A fall in American national

income and imports would cause a fall in the purchasing power of many of Britain's foreign customers, followed by a fall in British exports. That again, since Britain's reserve of foreign exchange is small in relation to its international liabilities, would involve the curtailment of imports, either by direct restriction or by the adoption of measures to curb domestic consumption of imported goods—in other words by the deliberate creation of unemployment.

By contrast, "the United States is in a unique position in its ability to develop full employment policies without concern to any possible unfavorable repercussions in its balance of payments or foreign exchange position. We have enormous gold reserves. . . . Because of strong foreign demand for our goods any increase in our imports resulting from favorable domestic conditions will be compensated by increased exports." * Assuming then the restoration of the multilateral trading system—the keystone of American foreign economic policy—the United States has the power either to reinforce the efforts of other countries to maintain full employment or, by allowing deflation to occur, to stultify them. A unique position, indeed! And a unique responsibility!

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* S. Morris Livingstone of the Bureau of Foreign and Domestic Commerce, Department of Commerce. Reported in the New York *Times*, Feb. 21, 1945.

Chapter 14

Spreading Prosperity

Industrial countries, as we have seen, can best serve the economic interests of the world at large by cultivating their own gardens—that is, by expanding the consumption of their own people and maintaining a high level of employment. This kind of self-interest, so long as no attempt is made to practice it in isolation, is the highest form of altruism.

But the raising of domestic standards is not enough. The great industries of the United States and Britain must look beyond national borders to maintain operations at a profitable level over a long period. When the American automobile industry is fully reconverted, it will probably be capable of turning out 8,000,000 cars annually. It will not take so long, therefore, to overcome wartime arrears and, even under conditions of sustained prosperity, it seems unlikely that the home market will be able to absorb production at this pace. It would require the scrapping of cars after an average life of less than five years. Most of the industries producing either capital goods—machinery of all kinds—or consumers' durable goods, such as refrigerators, may find themselves in a similar situation. If, therefore, the advanced industrial states are not eventually to choke themselves on their own surplus production, they must undertake a carefully planned and sustained campaign to raise

living standards throughout the world. This may involve heavy expenditures which show no direct return but, in the long run, altruism of this kind is likely to prove the highest form of self-interest.

The monumental task of spreading prosperity can be divided into two phases—the restoration of the war-torn countries and the long-range development of those huge areas the backwardness of which is a standing rebuke to "advanced" nations and a heavy drag on their own progress. In Asia, and to some extent eastern Europe, the two phases will merge, for reconstruction which aimed at returning to the *status quo ante* would be economically futile as well as politically impossible. When Japan began its long series of aggressions, China was in the early stages of industrial revolution. That revolution will have to be resumed and its tempo increased. The rebuilding of ruined factories and repair of damaged railroads will be a comparatively minor item in a vast program to increase total productiveness.

In western Europe reconstruction will also involve an element of development. Industrial plants will be rebuilt on more modern lines, old-fashioned equipment replaced by new. But the framework of an industrial civilization remains, buried though much of it is in rubble; more important, its mental and psychological mainsprings are intact—the skill to produce and the will to consume. In the backward regions of the globe these essential elements of economic progress have still to be formed by a slow process of education.

During the war there has been much discussion of long-range development of the primary producing countries, and programs for some major areas have been drafted. It is not too soon, but European reconstruction has an even greater

urgency, for until that is accomplished the economy of the world will remain out of balance. The world shortage of most commodities, visible in the autumn of 1945, disguises the fact that the war has hit consuming areas harder than producing areas. Taken as a whole, Europe has long been a net importer filling the gap between its purchases from and sales to the rest of the world by income on investments and payments received for services. The western hemisphere, on the other hand, is a net exporter, particularly of foodstuffs and raw materials. In the four years 1935–38, net agricultural exports from the Americas averaged $1,400,000,000 and 75 per cent of this sum was accounted for by the five great staples—cotton, wheat and flour, corn, beef, and tobacco.* The market for the bulk of those products was Europe, including Britain, and unless that market can be restored farm surpluses may become even more unmanageable than they were in the thirties.

The United States has a double stake in the revival of European buying power. In 1938, 42 per cent of its exports were absorbed by the United Kingdom and the rest of Europe, while Latin America accounted for 18 per cent. But Latin America's ability to buy in the United States depends to a very considerable extent on its ability to sell in Europe. This means that American businessmen will not be able to call on markets of the new world to redress the balance of the old. Latin America is ripe for development and potentially a very profitable customer for manufactured goods but it can hardly build new industries while its standard lines of production are facing collapse. Assistance to Europe, therefore, in the form of gifts and loans, not only will help to restore the largest market for United States

* Economic Relations Between the Americas," by Mordecai Ezekiel. *International Conciliation*, Feb., 1941.

goods but indirectly will serve to promote sales and protect investments in its second largest market.

Once industry in Europe is back on its feet, we may begin to worry about a surplus of manufactured goods rather than a surplus of raw materials. The capacity of the technically advanced countries to produce may seem to threaten to outstrip the world's capacity to consume. In an interview in November, 1944, with Lord Woolton, British Minister for Reconstruction, I suggested this possibility as a barrier to the fulfillment of British export plans. "The great thing," was the reply, "is to find means of increasing the consumption of the primary producers who form the greater part of the world's population but enjoy far too few of the world's goods. If the standards of the Asiatic and African masses can be improved even moderately, there will be no need to worry about industrial capacity being too great. There's no such thing as over-production, though God knows there's plenty of under-consumption."

At least three-quarters of the inhabitants of the earth live precariously on a margin of subsistence which to western stomachs would be hardly distinguishable from starvation. Their insecurity lies not in the fear of unemployment but in the dread of famine just around the corner. "Even at the depth of depression," an economist has written recently, "the standard of life of the industrial nations of the west is so far above the rest of the world, that a Hindu or Chinese peasant might well be amazed at our concern over the problem. For most of the world, the fundamental problem is that of economic progress." * In other words, it is the problem of increasing productive efficiency to a level that permits a tolerable standard of consumption for the

* *The Economics of Peace*, by Kenneth E. Boulding (Prentice-Hall, 1945).

producer and leaves a surplus which can be used to improve his capital equipment. The primitive cultivator working his impoverished soil with a wooden plough may be able, if the weather is kind, to grow a crop just large enough to keep his family alive. If he could get an iron plough, he might increase the yield sufficiently to gain a surplus which could be exchanged for fertilizer, making his next crop still larger. He would then have taken the first step on the road to economic progress by raising output to the point where the formation of capital could begin.

The major cause of the abysmal poverty which is found in almost all Asia and Africa, and in parts of Europe and Latin America, is not exploitation—though poverty always attracts exploiters—nor maldistribution of income between classes—though the poorer a society is, the more dramatic the contrast may be between the many and the few: the major cause is the hopeless unproductiveness of bare hands unaided by tools and unguided by knowledge. It has been estimated, for instance, that to secure a minimum standard of living in India a per capita income of 74 rupees is required. According to the latest available statistics, actual income per capita is 65 rupees and this figure is, of course, an average, taking account of the incomes of rich merchants and landowners, Indian and foreign, as well as of peasants and workers. It follows, therefore, that the redistribution of the incomes of the wealthy few would still leave the many below the poverty line.

Poverty means malnutrition and malnutrition poor health and debility, both obstacles to increased productivity. Unfortunately, neither an increase in the food supply nor an improvement in public health will, by themselves, enable economically backward peoples to break out of this vicious circle. For in their societies, the dismal law of Malthus

really operates: the population does press constantly on the means of production. If the food supply increases, more babies live to swallow it up; or if control of epidemics lessens the death-rate, the food supply becomes inadequate and the balance is restored by famine. Writing of the African problem "presented by growing millions on a land of diminishing returns," Dr. Isaiah Bowman has declared: "If millions are saved from tribal war, malaria and tsetse fly, only to be permitted to die of starvation, the controlling white has not improved the status of the population, he has only changed the categories of the vital statistics!" *

Beneath all the explanations of Indian poverty, asserts John Fischer, writing in *Harper's* Magazine for April, 1945, is the ominous fact that "there are too many Indians . . . 400 million of them . . . crowded onto a land which can support half that number on what most Americans would regard as the barest minimum of decency." One is sometimes tempted to generalize that the greatest need of Asia is a cheap and reliable contraceptive. But although crude forms of birth-control are found among many primitive peoples, efficiently planned parenthood is a highly sophisticated notion. It is, moreover, repugnant to the religious beliefs of the Hindu and Chinese masses; any attempts to introduce the practice of contraception, particularly if inspired by Europeans, would probably arouse violent opposition.

Western administrators of colonial areas have usually given priority in welfare work to health, but because poverty and ignorance are twins, education seems even more important. In fact, it is impossible to make much headway in raising health standards until some of the mental and psychological barriers to the acceptance of hygiene have

* Foreword to *Focus on Africa*, by Richard Upjohn Light (American Geographical Society, 1941).

been overcome. In most colonies too much of the little education that has been offered to the masses has been of the wrong sort. Until recently, the field was largely left to missionaries whose devotion was offset by bigotry. Often the mental training they provided and the moral standards they sought to impose were neither useful nor meaningful for the societies in which they labored. Sometimes efforts to cure body and soul canceled each other out: for instance, the introduction of western ideas of modesty and the encouragement of European clothing have reduced exposure to ultraviolet radiation which helped to compensate for Vitamin D deficiency in the diet of some African tribes.

Although the colonial powers successfully opposed at the San Francisco conference the transfer of responsibility for their dependencies to international trustees, they did "accept as a sacred trust the obligation to promote to the utmost within the system of international peace and security established by the present charter, the well-being of the inhabitants of these (dependent) territories." This pledge is all the more likely to be observed because it is in line with new trends in colonial policy which have become discernible during the last two decades. Britain, for instance, has begun to realize that in the past it has neglected its colonies, valuing them chiefly as outposts of imperial defense and sources of raw materials. Now it is taking broader views of their economic and political potentialities. If standards of living and education can be raised, they can become valuable markets; if their loyalties can be won by clearing their path to eventual self-government, they can make a powerful contribution to the security of the Commonwealth. Conscience and enlightened self-interest—a powerful combination—point in the same direction.

The extension of education appears to have a high priority in postwar colonial planning. The British have been impressed by the rapidity with which the Russians overcame illiteracy and the central part that campaign played in the Soviet industrial revolution. Proposals for "mass education" on somewhat similar lines are now under consideration by the Colonial Office. The objectives to be kept in view, declares an official report by a committee of colonial and educational experts, should be:

(1) The wide extension of schooling for children with the goal of universal school within a measurable period;
(2) The spread of literacy among adults, together with a widespread development of literature and libraries without which there is little hope of making literacy permanent;
(3) The planning of mass education as a movement of the community itself, involving the active support of the local community from the start;
(4) The effective coordination of welfare plans and mass education plans so that they form a comprehensive and balanced whole.*

Education, agricultural research, soil conservation (desperately needed in Africa), transport improvement, industrial development—all steps to the increase in productivity without which living standards must remain stationary—are costly. Up to 1940, while Britain did not draw revenue from its colonies, they were expected to pay their own way. In that year of peril, however, the House of Commons adopted the principle of long-term investment in colonial welfare and development by appropriating money for grants-in-aid to be made over a ten-year period. The sum was small—$20 million annually—but in 1945 a new Act

* *Mass Education in African Society*, Colonial No. 186, London.

provided for a total of $480 million over the next ten years.

Britain is thus backing its policy of enlarging colonial horizons with cold cash in the hopes that its own economy will ultimately benefit. But it should mean enlarged opportunities for other countries also. While the colonies share in the Imperial Preference system, Britain has never attempted to monopolize their trade. In 1938, Colonel Oliver Stanley, formerly Secretary for the Colonies, has pointed out, Britain supplied only 24 per cent of their imports and bought only 35 per cent of their exports. The San Francisco Charter provides for the maintenance of such "open doors." Moreover, the British government, realizing that many problems of a social and economic nature overlap boundaries, has indicated its willingness to participate in a number of regional colonial councils. A working model has already been established in the West Indies where, since 1942, the Anglo-American Caribbean Council has been operating as a guiding and planning agency, directing joint research into problems of health, education, agriculture and industrial development.

Few colonies are yet ripe for full-scale industrialization; the immediate scope for development lies in the fields of agriculture and transport. There are, however, three enormous areas, containing about half the population of the world, which are seeking to clinch political independence by economic independence and are, therefore, planning a rapid advance into the machine age—China, India, and Latin America.

At the request of the Chinese government, the Foreign Economic Administration has drafted a billion dollar postwar plan with the objective of "making the tools of industry with which China can mold its own future." The specifications provide for 953 plants in the fields of mining,

metallurgy, chemicals and food processing. Schemes for flood control and irrigation are also included, and a number of institutes for industrial training and research projected. Additional recommendations for the development of internal transport call for the expenditure of another billion. Just how such plans are to be financed is not clear. China lives too near the bone to have any large internal capital resources; for its population as a whole, the margin above subsistence needs is meager if, indeed, there is any margin at all. Nor has it external assets which can be mobilized to pay for imported machinery. The pace of industrialization, therefore, will depend very much on the availability of foreign capital which, in practice, will mean American capital for a good many years to come. China's stability and prosperity is both politically and economically important to the United States but the extent to which either public or private American loans will be forthcoming is likely to be determined by internal conditions. At the present writing, the outlook does not make for optimism.

India appears to be in a much stronger position financially than China. In the course of the war, British and American expenditures have made possible the liquidation of the country's whole external debt and, in addition, have enabled it to pile up credits in London which may finally total something like $3 billion. Even so, it is possible to view with some scepticism the ambitious plan for economic development which has been drafted by a distinguished group of Indian industrialists. This plan assumes "that on the termination of the war, or shortly thereafter, a national government will come into existence . . . which will be vested with full freedom in economic matters." * The objective

* *A Plan of Economic Development for India* (Penguin Special), London, 1944.

adopted is the trebling of national income within fifteen years which, allowing for population growth at the present rate, will permit a doubling of per capita income. The plan covers every aspect of social and economic life—health, housing, education, communications, irrigation, agriculture and industry. But it is on industry, for which a five-fold expansion is proposed, that the main emphasis is placed since, it is believed, only by increasing industrial productivity can the growth of income be pushed ahead of the growth of population.

The budget for the plan estimates total capital expenditure at $30 billion of which about one-third, it is suggested, can be obtained from hoarded Indian wealth and external resources—the sterling credits already mentioned, excess of exports over imports, and foreign loans. Internal savings will have to provide the balance and, as it is improbable that anything like the sum required can be raised either by taxation or by the sale of government securities to the public, it will be necessary to resort to "created money." The authors of the plan recognize that the opening of "a gap between the volume of purchasing power in the hands of the people and the volume of goods available" is likely to cause inflation. They suggest, therefore, that "in order to prevent the inequitable distribution of the burden between different classes which this method of financing will involve, practically every aspect of economic life will have to be so vigorously controlled by government that individual liberty and freedom of enterprise will suffer a temporary eclipse."

As the report states, only a government which had the full confidence of the people could carry out such a program and enforce the sacrifices which it would entail. Certainly no British administration in India could attempt

the task. Whether an independent Indian government will be able to pull the very heterogeneous elements of the country togther, finding the stability, strength, and competence to carry out so formidable an undertaking, remains to be seen.

Both China and India, insofar as they seek to raise themselves by their economic bootstraps, will face the problem which Stalin attacked so ruthlessly. The formation of capital in agrarian societies implies a surplus of farm production to feed the workers engaged in industrial construction and to exchange for foreign machinery and other supplies. How is this surplus to be extracted from peasants living close to the margin of subsistence? To tempt them to bring their produce to market there must be goods for them to buy—clothes, hardware and so on. But industrialization in its early stages—the construction of steel mills, power houses, machine shops—adds nothing to the total supply of consumers' goods while increasing the demand for them. Thus peasants, unable to use their cash incomes, tend either to eat up their surpluses or to hoard them, and the result is inflation and famine in the cities. When the Soviet government resorted to heavy grain taxes, the peasants cut production. Finally it issued its collectivization decree. Passive resistance and sabotage reduced production for a time still further but the government secured food and it was the rural districts that starved. The "battle of grain" was won at fearful cost.

The Indian planners believe that by paying more attention to the consumer industries than Russia did, they can repeat Russia's success without paying the same price. But both in India and China, agriculture is in an even more primitive state than it was in Russia and the acreage of cultivatable land per head is very small. It is difficult, therefore, to see how an industrial revolution can be carried

through without squeezing consumers unbearably, unless it is preceded by an agricultural revolution. That, in turn, will move very slowly if generous financial and technical assistance is not forthcoming from western countries.

Far more promising is the outlook in Latin America where several countries have already accomplished a considerable degree of industrialization. Nevertheless, in most parts of the southern hemisphere productivity remains far below North American levels. In 1938, the value of goods produced for sale per capita was approximately $300 in the United States and Canada, only $150 in Argentina, $70 in Chile and $50 in Brazil. Less than 2 per cent of the potential water power below the Rio Grande has yet been harnessed; development of huge areas is impeded by lack of all means of transport; valuable mineral resources are exploited only for export. Educational standards are still low: in Argentina, the illiteracy rate is 25 per cent, in many other Latin American countries, it is 50 per cent or higher.*

During the war, Latin American states have experienced a not too healthy boom. A big export surplus has enabled many of them to add to their gold and foreign exchange resources but the resulting expansion in monetary circulation has not been matched by an increased supply of goods. European sources of imports have been entirely cut off; Britain has been able to spare only a trickle of manufactures; United States exports have been limited by war demands and the shipping shortage.

An inflationary rise in prices has encouraged a considerable expansion of local industries which have earned big profits. But factories have had to make shift with obsolete machinery and quality has suffered. Textile and other man-

* "Economic Relations Between the Americas," by Mordecai Ezekiel. *International Conciliation*, Feb., 1941.

ufacturers in Brazil fear that with the return of peace increasing the supply of foreign cloth their business will slump. Probably there, and in other Latin American countries, there will be a demand for tariffs and subsidies on the grounds that without it investment will be discouraged and industrial growth impeded. It is easy to show, theoretically, the undesirability of such measures, and in a world fully unified economically, with complete mobility of capital and labor, the case for perfect free trade would be a strong one. But pending the realization of this ideal, most "backward" countries can insist with some logic on having more eggs in more baskets.

The United States has recognized that it cannot ask its Latin American neighbors to abandon the protective devices which it has itself employed, and is still employing: it only hopes to discourage their immoderate use. In line with this aspiration, signatories of the Hemisphere Economic Charter, drawn up at Mexico City in February, 1945, declared that in starting new industries they would be guided by natural advantages and would not rely on permanent government assistance. The somewhat elastic terms of this resolution should not prove an impediment to a large volume of investment in Latin America, both native and foreign. The Committee on International Policy of the National Planning Association has declared:

> Given a ten-year period of reasonable external stability, the twenty Republics of Latin America might wish to invest $6 or $7 billion for developmental purposes. Local capital will probably comprise 40–50 per cent of this amount, leaving a total demand of $3 to $3.5 billion, or an average of $300–$500 million per year. Of this amount probably 80–85 per cent will come from the United States. . . . Half or more of the total investment will probably have to be made by the United States government in view of the type of investment which, while

genuinely productive in raising the general economic potential of an area, does not of itself produce revenue for debt repayment.*

We have already noted that while both America and Britain will be in a position to export capital goods after the war, only the former will be able to back its sales with loans. Britain will gradually liquidate its debt to countries like India with the products of its heavy industries but such shipments will have to be additional to a volume of exports sufficient to pay for essential imports. Some assistance may be received, however, from the operations of the International Bank to whose loans no strings are to be attached: that is to say, borrowers will be free to use their loans to finance purchases in the most advantageous market. Should Ecuador, for example, negotiate a dollar loan, guaranteed by the Bank, for a hydro-electric development, it would be able to buy British turbines if they appeared a better bargain.

This may seem contrary to American interests but the opposite practice followed by the Export-Import Bank, whose loans can only be used for the purchase of American goods, is unfair to borrowers and does not, in fact, add to the volume of American exports. Suppose Ecuador financed its power project through the Export-Import Bank. The apparent rate of interest would be attractively low, but if it were necessary to pay 10 per cent more than the British price for American turbines, the real rate would be punishing. If the loan could be made without conditions, what would happen? Ecuador would use its borrowed dollars to buy in Britain; Britain would use the same dollars to buy

* *America's New Opportunities in World Trade* (Washington, National Planning Association, 1944).

machine tools or tractors in the United States. Thus the total volume of American trade would be unaffected while the total of international trade would be increased, since the dollars would have financed two movements of goods instead of one. So long as the demand for American goods exceeds America's capacity to absorb imports, tied loans offer no advantage and, as a form of discrimination, tend to encourage the maintenance of trade barriers.

The individual businessman, who sees an American loan promoting trade for a foreign competitor, will find it hard to appreciate this logic; he naturally identifies his interest with the national interest and argues that his loss must be a national loss. A similar psychology explains the opposition likely to arise to any proposal to promote industrial expansion in other lands. In its extreme form this opposition may lead to demands for embargoes on the export of machinery. Representatives of the Textile Export Association, it has been reported, have advocated that foreign sales of modern textile machinery should be prohibited, a step which would protect their trade at the expense of the makers of the machinery. Of course, reequipment of Brazilian mills may lead to uncomfortable competition for those in North Carolina but American industry as a whole stands to benefit. For an increase in Brazilian productivity will lead to improved living standards in Brazil and a greater demand for a wider range of American goods.

The more industrialized a country becomes, the better a market it affords for other industrial countries. In 1938, the largest purchaser of American products was its chief industrial rival—Britain. Canada, whose industries are also highly developed, was a close second. Together with Europe these two countries accounted for 58 per cent of United States foreign sales—more than all the non-competitive primary

producing countries. To the older industrial countries economic progress in the backward regions of the world offers the hope of a new frontier. Whatever grief its development may bring to individual firms and industries, any attempt at obstruction will prove a myopic and expensive form of selfishness.

CHAPTER 15

Partnership in Peril

WITH the end of hostilities in August, 1945, the Anglo-American partnership, which had done so much to bring World War II to a successful conclusion, received a sharp jolt. The announcement by President Truman that Lend-lease would be promptly halted stunned the British people momentarily. To them it meant that peace, instead of bringing a relaxation of austerity, would inaugurate a new period of privation. For through Lend-lease Britain had been obtaining, in addition to munitions, a considerable proportion of its strictly rationed food supplies. Thus it had been able to channel into war production labor and facilities which otherwise would have been devoted to the manufacture of exports needed to pay for essential imports. Peace freed these resources, but their reconversion to normal production, and the reestablishment of former foreign markets, was bound to take a long time. Meanwhile a yawning chasm opened between British payments to and receipts from the world outside the "sterling area" and only a comparatively slender reserve of gold, dollars, and other "hard currencies" was available to bridge it.

There was no doubt, however, that in cutting off Lend-lease on V-J Day the United States government was acting in accordance with the strict letter of its agreement. In fact, had it not taken this step, it might well have been called

to account for disregarding a clear mandate from Congress. Prime Minister Attlee acknowledged in the House of Commons that the British government had not expected Lend-lease would "continue for any length of time after the defeat of Japan." But it had hoped that the term "end of hostilities" would be given a rather more elastic interpretation in this matter, as it was in connection with some domestic American legislation. The suddenness with which the end came, therefore, caught it unprepared.

The shock was harsh but perhaps salutary, for it brought home to the British people a situation with which, sooner or later, they had to grapple. By immense exertions Britain had survived the war; now it had to face the fact that more sweat and abstinence was called for in order to survive the peace. Recovery of export markets must be given top priority and, until this objective was achieved, the country would have to postpone its hopes of a higher standard of living and make shift with a minimum of imported goods. For several years, an American businessman returning from England reported, the British would remain on a "fairly stringent diet." Already, in the first four weeks of peace, the caloric content had been sharply reduced.*

Even to maintain a basic minimum of imports presented a tremendous problem. In 1944 British exports to the United States had amounted to only $80 million while its imports of American goods, excluding munitions, were valued at $2 billion. Part of this immense total was represented by commodities which, with the cessation of fighting, were no longer needed in the same quantities, part by goods which might be obtained elsewhere in return for payments in sterling. But the United States and Canada were the only

* H. J. Heinz 2d. Quoted in the New York *Times*, Sept. 22, 1945.

countries with an exportable surplus of some important foodstuffs, just as they were the only sources of certain machines and raw materials which Britain needed urgently to put its export industries back on their feet. The extent to which Britain could economize its stock of dollars by switching purchases, or by going without, was, therefore, subject to definite limits.

When it stopped Lend-lease the American government indicated that it would be willing to provide loans both to cover goods already on order and to assist future purchases. The British, however, were extremely reluctant to ask for a loan which would have to be on commercial terms, for they did not want to incur obligations they were not certain they could carry. A loan of $2 billion—the absolute minimum needed—at 2 3/8 per cent interest would involve them in annual charges of $100 million. This would mean another heavy burden on the wrong side of the trade balance. Without a positive assurance that American imports of British goods would exceed the prewar average of about $150 million, it was difficult to see how the extra dollars needed to service a loan would be obtained.

Informally and tentatively the British suggested that a grant-in-aid, or a loan of a "non-commercial" nature, would enable them to straighten out their international financial affairs and put them in a position to cooperate with the United States in promoting the restoration of world trade in accordance with the provisions of the Atlantic Charter. Assistance in this form, it was pointed out, might be considered as compensation for the greater material sacrifices Britain had made during the war, including the liquidation of its foreign investments in the period before Lend-lease when it held the Axis at bay alone. This hint was coldly received in America. The Administration,

while appreciating Britain's plight, and convinced of the desirability from the point of view of long-term American interests of aiding its recovery, was aware that political realities forbade anything in the nature of a gift. Any assistance made available, it was plain, would have to be on a commercial basis and, in addition, be justified, not by reference to past British services, but by present and future benefits to the American people.

In any event a good deal of opposition to a loan of the required magnitude was indicated. Congressmen and others declared that, since Britain had voted for socialism, it should be denied assistance which would be used for the purpose of destroying private enterprise. The *Wall Street Journal* urged that the United States should make neither loan nor gift since "neither, no matter how big, could be expected to restore the United Kingdom to her former position as a solvent world-trading nation. Her internal economy and the condition of her export industries would have needed extensive overhauling before that restoration could be effected if Mr. Attlee and his party associates had not gained control of the government. Since they have, the overhauling promises to take the nation not toward but away from success in a bitterly competitive new world." *

More common than this ideological approach to the question is a hard-boiled "show me" attitude. Most Americans want to be sure that investment in Britain is a reasonably good bet. Is the British Empire, they ask, still a going concern or is it politically and economically bankrupt, land-poor in an age when only industrial strength counts? If its foundations are shaky, is anything to be gained by trying to underpin them? True, the United States fought two wars

* August 21, 1945.

largely because its strategic security would have been endangered if the British Isles had fallen into unfriendly hands. But have former conceptions of strategic security any validity with the rapid approach of a time when any spot on earth can be obliterated by a radio-directed atomic rocket launched from any other spot?

Some American observers, looking at the red ink on Britain's economic and political balance sheet, have suggested that it would be well advised to retire from the role of great power which it has played so long. Industrially, the argument runs, the advantages which gave Britain world leadership in the last century have vanished never to return. Its only raw material is expensive coal and it must thus seek a living by converting raw materials brought from the ends of the earth. The skills in which it once had a monopoly are now common to many lands. In an age of mass production and mass markets it cannot hope to compete with the United States. Would it not be better, therefore, if instead of trying to swim against the current of history, Britain shed responsibilities it no longer had the strength to bear? Let it wind up its unwieldy empire, which threatens to drain rather than augment its resources! Let it pack half its overcrowded population off to the Dominions and settle down to a quiet old age, supporting itself by agriculture, light industries, and the exhibition of its scenic and historic treasures to transatlantic tourists!

When we have achieved a world society merging all national sovereignties, when peace reigns throughout the earth, when there are no more tariffs nor immigration laws and men may move around freely and settle where they wish, then there may be a case for transforming Britain into one of a series of universal parks. But, under present circumstances, it is wildly unrealistic to propose Britain's

graceful withdrawal from the scene of world politics. Nations may be conquered and crushed; they may sink into slow decay; they do not abdicate. Britain acknowledges its wounds but scoffs at the suggestion they may prove fatal. It admits that, for the moment, it is financially strapped, but believes that it has assets, tangible and intangible, which will enable it to make a comeback. The self-confidence of the British, which ebbed low in the Chamberlain era, has returned. Refusing even to consider the possibility of defeat, they survived Dunkerque when all the world gave them up for lost. They do not accept the economic Dunkerque they have suffered as a reason for hoisting the white flag. Having saved the world, as they feel, by their example, they now propose to save themselves by their exertions.

There will be, therefore, no voluntary retirement. Britain will struggle to reestablish and maintain its place in the world with American collaboration if it can, on its own if it must. If American assistance in the present crisis is not forthcoming, the British believe that they have another remedy. At a press conference in Washington on September 12, 1945, Lord Keynes, chief economic adviser to the British government, pointed out that there were two possible solutions for Britain's balance-of-payments problem.

The first alternative is for us to do the best we can with the resources we still command, and aim at emerging slowly from our temporary difficulties with as little outside aid as possible; depending on the various defensive mechanisms which have been discovered by war controls, matching the purchases we make from any country with the purchases that country makes from us, and inevitably curtailing our overall import program on the lines of the greatest austerity of which we find ourselves capable. There are a good many people in England who think that this is really our best plan. Personally, I think that they greatly underestimate the disadvantages of it, not only to our-

selves but to the trade of the world as a whole and, above all, to the prospect of avoiding occasions of friction and difficulty between friends and former Allies.

The other alternative is to work out with you, and with your aid, some means of returning at the earliest possible date to normal trade practises without discrimination and to increased freedom and liberality in commercial and tariff policies; in the belief that the resulting general expansion of world trade will mean in the final outcome that you and other countries, as well as ourselves, will be much better off than under the first plan.

There may seem to some observers an element of blackmail or bluff about this "either-or" proposition. Those who have followed the analysis of Britain's position in earlier chapters will realize that it is not the former. If Britain cannot get the help it needs to carry it over the next three years while its export trade is being rebuilt, if it cannot be certain of maintaining its trade balance thereafter at a high enough level to provide the imports on which its existence depends, it must fall back on bilateral methods which will permit the matching of purchases by sales. This necessity is acknowledged by high American officials who are carrying on financial and commercial negotiations with a British delegation as this chapter is being written. Paraphrasing a statement by William L. Clayton, Assistant Secretary of State, John H. Crider has written in the New York *Times:* "If the United States did not grant to Great Britain the help she needed to bridge her critical balance-of-payments problem of the next three years, she would be forced into autarchic, defensive trade practises which would divide the world into blocs of a highly competitive nature. Trade blocs or economic blocs breed political blocs and the latter lead to war." *

* Oct. 10, 1945.

It would be unwise also to assume that the British are bluffing. The existing "sterling area" offers a working nucleus for an insulated trading system. It comprises the whole Empire, with the exception of Canada, and most of the countries of the Middle East. In addition Britain has concluded agreements with most nations in Western Europe by which each party undertakes to accept the currency of the other up to a definite, or in some cases an unlimited, amount. Bilateral treaties with some Latin American states provide likewise for the acceptance of inconvertible sterling in exchange for goods. Thus with a large number of trading partners Britain, in effect, makes its buying conditional on the equivalent purchase of goods either from itself or from some other country inside the sterling group. The seller's only alternative is to content himself with a sterling credit booked in his name at the Bank of England. These agreements are designed for wartime, or the postwar transitional period, and many contain clauses providing that both parties will endeavor to restore the multilateral convertibility of their currencies "as opportunity offers." Without American aid to Britain, however, that opportunity is likely to be long postponed, while the magnetic pull of the British market on the economies of many countries will tend to keep the sterling group together.

It was in the hope of preventing a division of the world into trading spheres of influence, a development that both parties agreed would tend to reduce the total volume of world trade and to disturb international relationships, that Anglo-American negotiations were begun in September, 1945. Financial aid to Britain proved merely the starting point in discussions which ranged over the whole field of world economics. The American thesis was that assistance to Britain must be contingent on its abandonment of

weapons of economic warfare, but obviously no one country can be called upon to disarm unilaterally. Britain, therefore, was asked to join the United States in sponsoring a provisional program for an International Trade Organization to be presented to a future conference of the United Nations. The objective was to outlaw unfair and discriminatory practices in international commerce, just as the Bretton Woods agreements had banned exchange manipulation and other forms of monetary aggression. Toward this end Anglo-American understanding was an essential first step. If the two most powerful and influential trading nations could not agree on economic disarmament, an international conference would be a waste of time.

Economic aggression and discrimination are, however, words with very different connotations in different countries. Is a tariff a legitimate commercial policy or a weapon of economic warfare? The common American view is that, so long as a tariff applies equally to the goods of all countries, it is a domestic matter. But it might also be argued that a tariff must be tested in the light of its purpose, the circumstances of the country adopting it, and its total effect on international trade. Thus a country imposing a tariff for the purpose of correcting a chronic adverse balance of payments might reasonably plead it was acting defensively. Could the same claim be made by a creditor nation, enjoying a steadily favorable balance of payments, which raised bars against the goods of its debtors?

The tariff is a ticklish issue in American politics, and an American draft of an international convention for economic disarmament is likely to content itself with pious hopes for the gradual, mutual reduction of burdensome import duties. Renewal of the Reciprocal Trade Agreements Act can be invoked as a proof of goodwill on the part of

the United States and as an example to follow. Import quotas, bilateral trade arrangements, and discriminatory operations by government-owned trading organizations offer less difficulty. These are not devices which the United States is tempted to employ.

Export subsidies present a knottier problem. They appear to offer a clear case of unfair competition and they certainly outrage every canon of free-market economics. In the course of the discussions with the British, it is reported, a State Department representative brought forward a draft policy statement banning export subsidies. Clinton Anderson, Secretary of Agriculture, who was present, immediately protested that the United States must not be committed to abandoning so important a means of aiding farmers. British delegates, on the other hand, objected strongly both to export subsidies and to shipping subsidies. The latter tend to depress the earnings of the British merchant marine, a most important source of foreign exchange. The former are highly detrimental to Dominion farmers and provide a strong argument for the retention of the Empire Preference system, which gives Empire producers a sheltered market in Britain. One of the most urgent American demands on Britain, however, is that this system be abolished.

In negotiations of this kind there is, inevitably, a tendency by both sides to

> Compound for sins, they are inclined to
> By damning those they have no mind to.

The final result, all too often, is to reach an agreement which leaves loopholes for both sinners. If this proves true in the present instance, the draft Charter of the International Trade Organization is likely to be a rather empty

document for there are not many economic misdeeds which Britain and America can unite wholeheartedly in damning.

A loan to Britain, however, is likely to be contingent on more than a general undertaking to support measures of economic disarmament. Relaxation of certain specific British trade controls, which are irksome to American business, together with a time-table for their gradual abolition, will probably be required. It is also likely that Britain will be asked to seek a composition of its frozen sterling debt which is mainly owed to Empire or Allied countries. The American view is that this debt, like Lend-lease, should be regarded as a contribution to the cost of the war. It should, at least, be scaled down, and part of what is left immediately made convertible into other currencies. This will enable Americans to secure a share in the postwar reconstruction orders of such countries as India—the largest of the sterling creditors—which at present can obtain only a meager allotment of dollars. Whether Indians will feel compensated by access to dollars, which they are most anxious to have, for a reduction in the total amount of sterling now owed to them, remains to be seen. The size of their credit in London reflects to a considerable extent their inability to import even vital necessities during the war. They have paid for it by privation and famine which, in their view, makes it not quite comparable to the sacrifices involved in Lend-lease.

During the Anglo-American negotiations both sides kept glancing over their shoulders rather nervously watching the reactions of public opinion. They knew that their conclusions would be subjected to close scrutiny in Congress and Parliament, and that any program designed to achieve the end in view would arouse sharp opposition on both sides of the Atlantic. In America there are always

the vocal Anglophobes who can be counted upon to be "agin" any kind of aid to Britain any time. In Britain they are matched by suspicious chauvinists always on the alert to save their country from becoming an American colony. Then there are the lobbyists, anxious to hitch their own special interest, however irrelevant, onto any deal with another nation. Thus we can expect demands that a loan to Britain should be made contingent on freedom for India, unification of Ireland, or the abolition of vivisection. And, almost inevitably, there will be attempts to add to any commercial agreement a clause "doing something for silver."

Opposition of a more serious character is likely to come from those who are genuinely haunted by the size of the American national debt. They will point out that, although a balanced budget is hardly in sight, assistance to Britain means a direct increase in public borrowing. Until it is fully solvent, they will insist, the United States must be prudent and refrain from accepting I.O.U.s and indorsing notes for strangers. This school of thought also has its counterpart in Britain, where some publicists contend that the country simply cannot afford to borrow. But unlike the American budget-worriers, they do see the problem in terms of goods and not of money. Their argument is that Britain has not in sight a prospective surplus of goods with which to pay for an American loan, even if America were willing to accept goods. This ignores the fact that an American loan will give Britain an opportunity to raise its productive capacity far more quickly than if it attempts to reconstruct with its own resources.

An Anglo-American bargain which includes any weakening of the Empire Preference system will be strenuously challenged by the Tory imperialists, who regard the Ottawa Treaty as an essential instrument of imperial expan-

sion. Empire Preference, L. S. Amery, a leader of this group, has said, "is the key to our household which we cannot hand over to strangers." In the same speech Mr. Amery asserted that American manufacturers, seeking to dominate the world's trade, believed that the smaller and more broken up markets were, the better. "Hence their insistence on the most-favored-nation clause, which prevented all economic groupings and their vehement objections to imperial preference as an obstacle to American control of the British Empire." *

Fear of America of a different sort inspires the very articulate group of radical planners who exert some influence on all British political parties. Their concern is the danger offered to a planned economy by destructive shocks they foresee as an offshoot of unregulated "monopoly capitalism" in America. They have no faith in the efficacy of an uncontrolled interplay of supply and demand on unregulated markets, believing it will certainly lead to ruthless international competition and to a new world war. "Whether we like it or not," an independent conservative Member of Parliament said to me on one occasion, "Britain's only hope of economic survival is a planned economy which must include the control of food imports, exchange control, and the trading of our sterling obligations in the sterling area." He went on to accuse American liberals of inconsistency: "What I cannot understand," he said, "is how you reconcile a national economy of deliberately planned expansion with economic anarchy in the international field. As I see it, you can logically support the nineteenth century system of 'laissez-faire' capitalism, an international gold standard, and multilateral free trade:

* New York *Times*, Oct. 3, 1945.

or a twentieth century system of planned economies, involving a purposeful direction of trade. But not both."

This point of view represents, in reverse, the all-or-nothing attitude of free enterprisers of the *Wall Street Journal* brand who contend that a mixed economy is an impossibility, that we either must shun all planning like the plague or be prepared to extend it down to the last nickel candy bar. Liberal American economists, such as Professor Alvin H. Hansen, refuse to impale themselves on this dilemma. The proper sphere of planning, as they see it, is multiplication not division. Quantitative regulation of trade can be justified in time of war or other emergency but, as a permanent system, it is based on the assumption that the size of the cake is irrevocably fixed. The determination of quotas, or the width of the slices, then becomes a matter of bargaining power, political and economic. Ruthless competition is not eliminated; it is translated into a more dangerous form. Quotas, in fact, mean the application of cartel methods by governments instead of private corporations, and the results are similar. By introducing rigidity of prices and encouraging limitation of production, planning by division tends to make its assumption of inelastic trade come true.

The multiplier's major premise is that the relative proportions of individual and national slices of trade are much less important than the total to be divided. The planner's task, in other words, is to bake a bigger cake and so make available bigger shares for all. His aim is not to regulate supply and demand but to keep it in balance at the highest possible level and thus create an environment favorable to economic expansion without destroying the benefits which competition can offer to the consumer.

In fairness, however, it must be reiterated that the British are not at present free to go ahead with their own plans

on the assumption that the United States will play its part in creating such an environment. All that can possibly be done in the next few years to expand world trade by lowering economic barriers would be quickly cancelled out by a new American slump. But Britons can observe private enterprise in this country moving steadily and blindly up the old trails that lead over the glittering mountains of Boom, beyond whose crest is the chasm of depression. They see too that, while the idea of planning for full employment is making progress, in Washington it remains a political football.

Either to make a deal with America or to reject one involves heavy risks for Britain. Adoption of Lord Keynes' first alternative—the attempt to organize a self-contained, insulated, sterling bloc—would probably prolong the period of severely restricted consumption and slow down the processes of reconversion. It would lead to many difficulties with members of the sterling group who want to free themselves from its yoke; it would place Canada, with its close ties to both Britain and the United States, in a desperately uncomfortable position; it would break up the Anglo-American partnership politically as well as economically. At best, relations between the two countries would be badly strained; at worst, they would organize rival blocs and engage in economic warfare spending "some feverish years of jungle life, in cut-throat war for international trade; in scrambling and out-smarting each other; in stealing each other's customers and blackening each other's faces, until another Hitler arises to exploit the miseries of the people and to multiply them ten-fold by another war." *

On the other hand, a policy of close cooperation with

* Lord Halifax, British Ambassador to the United States, in a speech to the Investment Bankers Association at Chicago, November 28, 1944.

the United States, on the kind of terms Congress might approve, means hitching the British wagon to the American shooting star without any guarantee that this star will follow a steady course. A violent dip paralleling its 1929 plunge would have catastrophic consequences on the British balance of payments which, for a long period to come, must remain precarious. It might mean that once again a British government would be faced by the choice of breaking with the dollar, and defaulting on its obligations to the United States, or imposing a degree of inflation upon its people which would force their standard of living down to a subsistence level. "We cannot give up the right," said Winston Churchill in his election manifesto in June 1945—and in this he spoke for all parties—"to safeguard our balance of payments by whatever means are necessary." That is Britain's categorical imperative, the acid test it must apply to all proposals affecting international trade, for failure in this respect means hunger. Any Anglo-American understanding must allow for this fact or it will not prove lasting.

The End

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